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Yearbook of U.S.-Japan Economic Relations in 1983

Foreword

The Japan Economic Institute of America is pleased to present the sixth edition of the YEARBOOK OF U.S.-JAPAN ECONOMIC RELATIONS, an annual review of the economic relationship between Japan and the United States. The yearbook is unique in its focus on the bilateral relationship and in its consideration of both the economic developments of the year and the policy discussions and decisions that shaped the nature of bilateral economic activity.

JEI thanks Japan's Ministry of Foreign Affairs for providing the special funding that made continuation of this important project possible.

Susan MacKnight
Senior Economist

October 1984

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Part I • Chronology

January

3 Foreign Minister Abe begins a European tour by conferring with EC officials in Brussels. They endorse Japan's efforts to reduce the Japan-EC bilateral trade surplus.

4 Foreign Minister Abe in London meets with British Foreign Secretary Pym, Secretary of State for Industry Jenkin and Trade Secretary Cockfield, and then meets in Bonn with German Chancellor Kohl and Foreign Minister Genscher. The main topic of the talks is the continuation of the sanctions against the Russians and the need for closer consultations.

5 The Japan Chemical Fibers Association refutes U.S. textile manufacturers' charge of polyester filament fabric dumping. U.S. Department of Commerce had previously initiated an investigation into the matter.

5 Foreign Minister Abe meets in Paris with French Foreign Trade Minister Jobert, Industry Minister Chevenement and External Relations Minister Cheysson. Talks center around French import restrictions on Japanese video cassette recorders by funnelling them through the tiny inland town of Poitiers.

6 The U.S. government announces strict fishing quotas for Japan under the Fisheries Conservation Management Act despite Japan's compliance with the "fish and chips" provisions. The Japanese contend the decision is unfairly linked to U.S. displeasure over their whaling stance.

6 OECD officials express satisfaction with Japan's efforts to maintain a strong yen, easing one point of dispute between Japan and its trading partners.

10 Ichiro Nakagawa, a major political leader in the Liberal Democratic Party and recent contender for prime minister, dies. Nakagawa's faction was small but influential.

10 Japanese agricultural leaders urge opposition to farm import liberalization, citing national security interests. Solution of these highly symbolic U.S.-Japan issues remains elusive.

10 Foreign Minister Abe briefs the prime minister on his European trip, emphasizing the need to solve trade issues and enhance political and scientific cooperation.

11-12 Prime Minister Nakasone visits South Korea and agrees to a $4 billion economic aid package and other matters to strengthen economic and political relations. He becomes the first postwar prime minister to visit the country.

13 The Japanese government announces a major new package of market access measures, which is welcomed by United States Trade Representative (USTR) William Brock. The package spans several areas including unilateral tariff reductions, simplification of import testing and certification procedures and import promoting administrative reforms.

13 The Nakasone government announces decision to allow U.S.-Japan military technology exchanges, recognizing the maturation of the defense relationship. Washington praises the move as a significant step.

13-14 Japan-EC working level trade talks held in Tokyo. Both sides express their concerns over protectionism and air their grievances on specific items such as automobiles.

14 Western European ambassadors urge MITI Minister Yamanaka to increase imports and stimulate domestic demand in order to redress the lopsided trade balance.

14 MITI Minister Yamanaka meets with Japanese steel industry executives to discuss U.S. unfair trade charges filed December 16, 1982. The American Iron and Steel Institute had challenged the legality of the 1978 Japan-EC quantity and price pact.

15 Canadian Prime Minister Trudeau meets with Prime Minister Nakasone in Tokyo to increase political, social and economic links and discuss the Pacific Community concept.

17-20 Prime Minister Nakasone visits Washington. In trips to Capitol Hill and the White House, Mr. Nakasone impresses everyone with his grasp of bilateral issues and his determination to solve problems. While achieving his primary goal of establishing a close personal friendship with President Reagan, no action is taken on substantive issues. Reaction in Japan to his trip is mixed, especially over his outspoken remarks on defense.

20 Japan-EC symposium on international trade is held in Brussels with Japanese delegates giving advice on how to penetrate their market and discussing opportunities for cooperation.

20 British Secretary of State for Industry Jenkin warns MITI Minister Yamanaka in Osaka about Japanese exports to Europe, threatening restrictions if they are moderated. He also pushes for more Japanese investment in the United Kingdom and cooperation in high technology fields.

21 The Japan Iron & Steel Exporters' Association (JISEA) submits its opinion statement to USTR opposing the American makers' unfair trade practice charge. JISEA claims there was nothing secret or unfair about the Japan-EC agreement, likening it to the American trigger price mechanism.

24 Prime Minister Nakasone makes a major policy speech to the Diet, arguing that Japan is at a crossroad both politically and economically. To go forward, Japan must revamp both aspects to become a full participant in the international community. This concept includes a controversial prodefense stance.

24 Japan and the United States sign an agreement on joint nuclear fusion research.

25-27 At Japan-EC trade talks held in Tokyo, EC delegation head Leslie Fielding asks for restraints on exports of 10 goods.

25 Japan protests the Soviet intention to move SS-20 missiles from Europe to Siberia and strongly criticizes a Soviet threat to make Japan a nuclear target.

26 Japanese prosecutors ask for a five-year sentence for former Prime Minister Tanaka as the six-year Lockheed scandal trial nears its end. The motion for the maximum sentence stirred increased public debate over the case.

30 Secretary of State Shultz arrives in Tokyo for 3 days of talks on coordinating American and Japanese foreign policy.

31 The American Iron and Steel Institute withdraws its unfair trade complaint against Japanese steel makers to give USTR Brock time to negotiate a settlement. Japanese steel makers continue to protest.

February

2 Secretary of State Schultz meets with Prime Minister Nakasone and other officials in Tokyo. Mr. Schultz discusses coordination of foreign policy, and briefs officials on his imminent visit to China.

1 The Office of Trade Ombudsman holds its first meeting in Tokyo. The office's mandate is to act on behalf of foreign companies lodging trade complaints against Japanese firms or government agencies.

2 Rep. McKinney (R, Conn.) introduces a bill continuing the ban on exports of Alaskan crude oil to Japan. The U.S.-Japan bilateral energy group and Alaskan congressmen all urge repeal of the ban.

3 Rep. Ottinger reintroduces local-content legislation aimed at Japanese auto makers over strong Administration opposition.

6 European Community Commission Vice President Haferkemp arrives in Tokyo to discuss trade, issuing grim warnings if Japan fails to act.

9 Japanese opposition parties introduce a resolution calling for former Prime Minister Tanaka's resignation for the Diet because of the Lockheed scandal

9 Hitachi pleads guilty in the criminal espionage case stemming from the 1982 FBI sting operation. The company is fined for stealing technology from IBM. This leaves charges against Mitstubishi Electric and a possible civil case.

10-13 USTR Brock meets with Japanese officials in Tokyo to discuss Japan's voluntary restraints on auto exports, hoping to gain agreement on another one-year extension. Japanese officials, while resisting a fourth year of restraints, admit that international political considerations are paramount.

10 Japan and the EC agree to establish a bilateral subcommittee on trade expansion that will investigate cooperative ventures and study trade barriers.

10 Secretary of State Shultz arrives in Tokyo from China to meet with Foreign Minister Abe and review his trip. Emphasizing the Soviet threat, the Japanese endorse President Reagan's "zero option" arms talks strategy and call for closer Japan-NATO consultations.

11 MITI Minister Yamanaka, EC Vice Presidents Haferkamp and Davignon, USTR Brock and Canadian Trade Minister Regan meet in Tokyo to discuss international trade problems with an eye toward avoiding flare-ups and new protectionist moves.

12 Japan agrees to curb exports of VCRs and other products to EC for three years. The agreement, a first between the two, gives Japan guarantees against further tariff barriers and a commitment to harmonize EC-import policies in exchange for the limits on exports.

15 Japan agrees to extend voluntary restraints on auto exports to the United States for a third year (April 1983-March 1984) at the same 1.68 million unit level. American auto makers had to be satisfied with the agreement although they wanted a multi-year extension. While avoiding a two-year extension of the limits, the Japanese run the risk of having next year's U.S. elections cloud the issue.

15 General Motors and Toyota announce a plan to jointly produce cars in the United States, starting in 1984, after a year of tough bargaining. The project faces antitrust and organized labor hurdles before it can get off the ground.

16 Soviet Fisheries Minister Kamentsev arrives in Tokyo for talks and proposes forming a joint fishing company. The Japanese welcome the initiative at the first cabinet-level talks since the Soviet invasion of Afghanistan.

16 Foreign Ministry officials brief members of an upcoming private trade mission to Moscow on current strained Soviet-Japanese relations, reminding them of the northern territories issue, the economic boycott against Russia and the restrictions on high-technology trade with the Soviets.

18-20 Liberal Democratic Party Secretary General Nikaido arrives in Peking to meet with Chinese leaders on foreign policy and to reassure them that Prime Minister Nakasone's pro-defense statements are not anti-Chinese. While reassured, Chinese officials worry over the effect in other Asian nations, but join Japan in concern over the soviet nuclear arsenal.

21 Chinese Foreign Economic Relations and Trade Minister Chen arrives in Tokyo to discuss certain bilateral economic projects.

22-25 Private Japanese trade mission holds talks with Soviet leaders in Moscow about expanding bilateral trade by offering some small deals for non-military goods. The Soviets had hoped that this trip would lead to a thaw in relations, but the mission lacks official government support.

23 The American Iron and Steel Institute and domestic U.S. makers refile their Section 301 complaint against Japanese steel exports after U.S. Trade Representative William Brock fails to press the Japanese for voluntary exports on steel.

25 USTR rejects the American Iron and Steel Institute petition, saying that the case had no grounds the first time and no grounds this time.

March

1 The House Foreign Affairs Subcommittee on International Economic Policy begins hearings on the Export Administration Act with business representatives claiming that ill-defined presidential trade authority harms U.S. export efforts and makes the U.S. an unreliable trading partner.

2 The Senate Banking Committee holds hearings on the Export Administration Act. Debate centers around the link between foreign policy and trade.

8 The Japanese government confirms that the U.S.-Japan military technology exchange agreement will not undermine its arms export ban nor will it be illegal for the governments to jointly develop weapons systems in the future.

9 Japan's House of Representatives passes the FY 1983 budget, with expenditures showing a 6-percent increase over the previous year. Most of the increase goes toward interest on the national debt and defense as most other expenditures are cut in keeping with the Finance Ministry's austerity guidelines.

10 MITI Minister Yamanaka warns EC officials about rising protectionism in Europe, saying it poses a threat to increased Japanese investment there. He also expresses dissatisfaction with France's slow removal of its barriers against Japanese exports of VCRs.

10 The House Ways and Means Trade Subcommittee begins a series of hearings on U.S.-Japan trade where the hottest topic is the U.S. response to Japan's industrial targeting policies. Argument rages over its efficacy and how to counteract it, but market access and the yen/dollar currency misalignment are also discussed.

10 The U.S. National Tool Builders' Association files a complaint with the Commerce Department about imports from Japan and Europe, charging that they represent a threat to national security, and appealing for across-the-board protection.

14 OPEC members meet in London and agree to an oil price cut and a new production ceiling in an attempt to bolster the cartel's market strength and end price-cutting in the face of the market glut.

14 Japan's Administrative Reform Commission releases its final recommendations on streamlining the government, recommending reorganization and review of procedures to cut costs. It also proposes that the budget be balanced through spending cuts and not by tax increases.

15 Secretary of Interior James Watt calls for Japanese investment in Alaskan coal mining despite weak demand in Japan and previous heavy investments in new Canadian coal mines.

16 The House Ways and Means Committee hears views on revising trade remedy laws. Industry spokesmen want streamlined procedures and more clear-cut guidelines. Administration trade policymakers accept the streamlining but rebut guideline changes by stressing the complexity of many trade issues.

16 The Senate Government Affairs Committee holds hearings on the Export Administration Act.

16 The local election campaign begins in Japan with economic issues upmost in the voters' minds. The major parties plan to fiercely contest some governorships while jointly supporting others.

17 The Economic Planning Agency releases GNP data for the fourth quarter of 1982, showing an annualized real growth rate of only 1.8 percent for the quarter and 3.0 percent for the year.

17 The Senate Government Affairs Committee holds hearings on trade reorganization. Proposals for reforming the current structure include establishment of a MITI-like Department of International Trade and Industry.

18 Japan announces the establishment of a minimum price for VCR exports to the EC in another move to calm adverse reaction to Japanese exports and to aid European VCR makers.

22 The Senate Banking Committee begins reauthorization hearings on Export-Import Bank funding. Some Senators, backed by industry, want to use the bank to combat "predatory financing." Administration witnesses respond that current funding and charter provisions are adequate.

22 Commerce Secretary Baldrige criticizes NTT's procurement policy, echoing U.S. Trade Representative William Brock's frustration expressed in February. While U.S. officials initially supported NTT's reform efforts, industry frustration is now infecting the government.

26 Japan announces simplified import standards and certification procedures affecting 17 laws. Foreign test data and testing will now be accepted in lieu of Japanese tests for important goods such as pharmaceuticals, medical equipment and electric appliances. The standards issue had been a major one in bilateral relations, and this move goes a long way to remove the problems.

April

1 Japan's unemployment figure remains at its highest post-war level for the third consecutive month. The 2.7 percent figure causes a groundswell of support for more expansionary macroeconomic policies.

2 Soviet Foreign Minister Gromyko claims Okinawa is a nuclear base and warns that it may be a nuclear target. The Japanese government rebuts the remarks.

5 The Japanese government announces stepped-up spending for public works, residential construction and business capital in response to the sagging economy. Overall fiscal austerity, though, limits the impact of these measures.

5 The U.S. reduces Japan's quota for fish caught within U.S. waters in retaliation for Japan's continuing objections to a U.S.-supported ban on all commercial whaling. The Japanese strongly protest this link between the two issues.

5 The House Foreign Affairs Subcommittee on International Economic Policy holds hearings on possible Administration-proposed revisions to the Export Administration Act that emphasize foreign policy controls as an important tool.

5 The EC Commission halts its investigation of allegedly dumped Japanese VCRs after reaching agreement on voluntary export restraints.

6 Council of Economic Advisors (CEA) Chairman Martin Feldstein denies Japan has intervened to hold down the yen's value, saying there is no evidence to substantiate such charges.

7 The Senate Foreign Relations Committee holds a hearing on U.S.-Japan economic relations. Witnesses touch on a number of areas: industrial policy, non-tariff barriers, currency misalignments and possible U.S. responses.

8 Japan seeks bilateral consultations under the General Agreement on Tariffs and Trade (GATT) on the U.S. decision to raise tariffs on motorcycles.

11 Gubernatorial and prefectural assembly elections are held in Japan with mixed results. The ruling-LDP loses two of three important gubernatorial contests but sweeps the local assembly elections.

12 The House Energy and Commerce Subcommittee on Commerce, Transportation and Tourism debates domestic content legislation in hearings that feature head-on clashes between congressional proponents and administration opponents.

12 The House Foreign Affairs Subcommittee on International Economic Policy continues its hearings on the Export Administration Act.

12-14 U.S.-Japan working level consultations are held in Tokyo on customs clearance procedures.

13 Japan sends a protest letter to the EC on its decision to press Japan on market access, calling the act unjustified and accusing the Europeans of renegging on prior agreements. The EC had opted to move its complaints against Japan to the second stage on the GATT process because it felt an impasse had been reached.

13-14 The House Ways and Means Trade Subcommittee holds hearings on trade remedy laws.

14 The Senate Banking Subcommittee on International Economic Policy continues its hearings on the Export Administration Act.

18 MITI Minister Yamanaka defends Japan's industrial policy in a public statement, claiming its is no different than what the United States or European governments do when they support R&D and investment in vital sectors.

19 The House Ways and Means Trade Subcommittee continues hearings on trade remedy laws; industrial policy again dominates center stage.

19 The House Banking Subcommittee on International Development holds a hearing on the Export-Import Bank.

20 MITI releases a report opposing the local content legislation pending before Congress.

20 The EC asks the GATT Council to investigate Japan's alleged restrictive trade practices as bilateral discussions with Japan under the GATT Article 23 procedures had failed to satisfy EC negotiators. Japan is deeply upset by the EC move, but hopes to retaliate with its own complaints against the EC.

21 The Senate passes a reciprocity trade bill (S. 144) that would significantly strengthen the President's powers to retaliate against foreign unfair trade practices.

21 Japan and the Soviet Union agree on a level for the 1983 salmon catch in the northwest Pacific, but disagree on nearly every other economic and foreign policy issue.

22 A gallup poll indicates a decline in the American public's trust of Japan. Economic friction seems to be the primary cause.

22 The U.S. government denies Houdaille Industries' petition for protection from Japanese machine tool imports in a long-awaited decision. The controversial case is the first attempt by American industry to use foreign industrial policy as a means to achieve protection from imports. However, the government promises to hold discussions with the Japanese about its targeting policies.

22-24 The Group of 30 meets in Tokyo to confer on the world recession and calls for a reduction of the U.S. budget and expansionary policy in Japan.

24 Conservatives and moderates are victorious in most mayoral and city council elections in Japan. The results reflect concern over "bread and butter" issues rather than support for Prime Minister Nakasone's national policies.

25-26 The United States and Japan discuss Japan's beef and citrus import quotas at a meeting in Washington. This is the first meeting after a long hiatus following the breakdown of discussions in the fall of 1982. The new meeting produces no visible results.

28 Finance ministers and central bank directors for the industrially advanced nations meet in Washington to examine the problems of the world recession and third world debt.

28-29 Trade officials from the United States, Japan, the EC and Canada meet in Brussels and reiterate their support for free trade.

May

1 Prime Minister Nakasone visits the ASEAN nations and reaches accords on joint R&D and investment projects. However, his strong stand on defense spending in Japan remains a worry for these nations.

2 The Diet passes a replacement for the soon-to-expire Depressed Industries Law. The government will thereby continue to play a role in cutting back capacity in certain declining industries, such as aluminum smelting, synthetic fibers and ferrosilicon.

4 The House Foreign Affairs Subcommittee on International Economic Policy reports the Export Administration Act to the full committee. However, the subcommittee version differs significantly from what the administration desires.

5 Commerce Secretary Baldrige testifies before the House Foreign Affairs Committee on the Export Administration Act, attacking the House version as tying the President's hands on foreign trade.

6 The House Energy and Commerce Subcommittee on Commerce, Transportation and Tourism holds hearings on trade issues affecting the U.S. automobile industry.

9 The House Banking Committee authorizes an $8.4-billion increase in the U.S. contribution to the International Monetary Fund (IMF).

10 The trade and finance ministers of the industrially advanced nations meet with officials from the OECD, GATT and IMF in Paris to discuss multilateral trade issues in advance of the summit meeting.

10 The House Merchant Marine and Fisheries Subcommittee on Fisheries and Wildlife Conservation holds hearings on U.S. fisheries management. Japan is a central issue at the hearings.

11 Secretary of State Shultz and Foreign Minister Abe agree on bilateral cooperation in economic aid.

11 The Senate Government Affairs Committee holds hearings on a Department of Trade as a method to enhance U.S. exports and coordinate trade policy.

12 French business leaders criticize the French government's restriction on imports of Japanese VCRs.

13 The members of the new Japan-United States Advisory Committee (established at the time of Prime Minister Nakasone's trip to Washington) are announced: the U.S. chairman is David Packard and the Japanese chairman is Ambassador Nobukiko Ushiba. The group will study a wide range of bilateral issues.

15-16 The United States and Japan discuss industrial policy at a Tokyo meeting and agree to create a working group to study its domestic and foreign affects.

17-21 Bank of Japan Governor Maekawa reiterates Japan's intention to help resolve third-world debt problems at an IMF conference in Brussels.

17 Commerce Secretary Baldrige arrives in Tokyo to begin a 3-day visit amid an atmosphere of increasing trade tension.

18 The U.S.-Japan Trade Facilitation Committee meeting is held in Tokyo. The United States attacks Japan's Depressed Industries Law as a potentially protectionist vehicle. Japan responds that misunderstanding exists.

18 The Japanese Diet passes legislation to simplify import procedures; U.S. Trade Representative Brock hails the measure.

19 Prime Minister Nakasone speaks in Japan on "Economic Management for a New Affluence," stressing free market concepts and pledging to reduce the role of government.

19 The House Subcommittee on Commerce, Transportation and Trade reports the domestic content legislation.

19 Foreign Minister Abe and Commerce Secretary Baldrige discuss the U.S. Export Administration Act in terms of future actions similar to the embargo against the Soviet Union (which had affected sales by Japanese companies).

19 Commerce Secretary Baldrige and President Shinto of Nippon Telegraph and Telecommunications discuss U.S. procurement, ending in Mr. Shinto's pledge to facilitate U.S. sales.

23 Prime Minister Nakasone meets with ambassadors from the industrially advanced nations in preparation for the Williamsburg summit.

23 Japanese-British auto talks are held in Hakone where the major topic is continued Japanese export restraints.

24 The Japanese cabinet approves a proposal to streamline the government based on some, but not all, of the advisory commission on the administrative reform. A major intent of the commission and the reforms is to reduce government deficits.

25 The Subcommittee on Commerce, Transportation and Tourism holds hearings on currency misalignments, including the yen-dollar relationship.

25 The Senate Banking Committee reports to the full senate its version of the Export Administration Act, which strengthens controls but remains sympathetic toward business.

27 President Reagan meets with Prime Minister Nakasone in Washington in advance of the industrial nation summit and praises Japan's efforts to liberalize its markets.

27 The House Foreign Affairs Committee reports on the Export Administration Act, submitting a bill that would eliminate security controls over exports.

29-30 The Economic Summit meeting at Williamsburg hears Mr. Nakasone reaffirm Japan's commitment to economic cooperation and confirm Japan's higher profile strategic cooperation with the other industrialized countries.

31 Prime Minister Nakasone addresses the Japan Society in New York, turning to an exposition of Japan's new role in world economic and political affairs.

June

2 Japan's House of Councillors begins its campaign for elections on June 26. The election will be the first national election since Mr. Nakasone took office.

3 Prime Minister Nakasone asks the Nippon Telegraph and Telephone Public Corporation (NTT) to purchase U.S. products and build ties to U.S. firms. This is in response to criticism that few sales have resulted from the 1979 agreement under which foreign firms could bid on NTT procurement contracts.

6 President Reagan meets with NTT's president on the procurement issue. NTT promises to increase foreign procurement and ease procedures.

7 The House Banking Subcommittee on Economic Stabilization begins a series of hearings on the nature and efficacy of industrial policy.

7 Foreign Minister Abe urges the establishment of a common fund for commodity price stabilization at the UNCTAD conference in Belgrade. He also appeals for North-South cooperation and realistic development plans by LDCs.

9 The House Armed Services Committee considers East-West technology flows and accusations that allies (including Japan) are a major source of leaks.

9 Japan announces that it will provide $287 million official credit to China in FY 1983 for steel, transportation and energy projects.

9 Japanese law enforcement officials hold meetings on Soviet covert activity in Japan, paralleling hearings in the U.S.

9 Assistant Secretary Perle of the Defense Department proposes import sanctions against Japanese firms exporting high technology products with potential military use to the Soviet Union.

10 MITI Minister Yamanaka resigns due to illness; Sosuke Uno, known for his expansionary fiscal views, is named to the post.

12 The Conference Board in New York reports that U.S. state governors and congressmen unanimously welcome Japanese investment in the U.S.

14 The newly founded Institute of International Finance, Inc., consisting of senior bankers from the U.S., Europe, Japan and Canada, is launched in Tokyo.

15 Prime Minister Nakasone proposes accelerated import efforts, including financial incentives and administrative reforms.

15 The U.S. International Trade Commission holds a hearing on foreign industrial policies and their impact on U.S. trade. This is part of an extensive study of Japanese industrial policy to be released later in the year.

16 The Economic Planning Agency releases first quarter GNP data showing a disappointing annualized real growth rate of only 0.7 percent, bringing growth for FY 1982 to 3.3 percent.

17 Testimony in the trial of former prime minister Tanaka before the Tokyo District Court over the Lockheed bribery case ends; the court decision will be announced in October.

17 The new Nissan assembly plant in Tennessee begins production of pick-up trucks. It becomes the second major Japanese auto maker to begin some form of assembly in the United States.

20 A Nomura Research Institute report commissioned by the Economic Planning Agency criticizes U.S. trade rules.

21 The House Energy and Commerce Committee reports out domestic content legislation; the bill now goes to the Ways and Means Committee where several controversial amendments await.

21 Japan expels a Soviet diplomat on industrial espionage charges. The action heralds a crack-down after a review of Soviet activities.

21 The International Monetary Fund releases its world economy projection forecasting continued recession and major financial problems due to third-world debt.

21 MITI releases its annual white paper on international trade, defending industrial policy and reiterating support for expansionary fiscal policy.

21-22 The United States-Japan Advisory Commission is formally launched. The first order of business is to develop a list of problems to be tackled.

22 U.S.-Japan working level talks on economic aid cooperation are held in Washington with the emphasis on new joint efforts and increasing consultations.

22 The House Energy and Commerce Subcommittee on Commerce, Transportation and Tourism holds a hearing on reciprocity legislation that would expand and clarify the president's powers to retaliate against foreign unfair trading practices.

22 The House Foreign Affairs Subcommittee on International Economic Policy and Trade considers White House plan to reorganize the trade bureaucracy in a MITI-like fashion.

23 The U.S. government approves Hitachi export of electronic telephone switching equipment to China that contains American components, another episode in the concern over export of technology to communist countries that is the focus of revision of the Export Administration Act. U.S. officials now view China as a "friendly nation," not a "communist" one.

24 U.S. Supreme Court strikes down the Congressional veto with implications for the conduct of U.S. trade law.

24 The Senate Government Affairs Committee considers the Administration's trade reorganization plan. Despite united administration support, little enthusiasm for the plan is expressed by the committee members.

24 The Joint Economic Committee begins a series of hearings on industrial policy that will last several months. The Japanese experience will be actively discussed.

27-28 An expanded ASEAN conference that includes the U.S. and Japan is held. The continuing Indochina war plus other defense and trade issues are debated.

27 The House Energy and Commerce Committee examines the effects of foreign unfair trading practices on interstate commerce.

27 The LDP dispatches a parliamentary mission to the U.S. on beef and citrus issues in hopes of obtaining American understanding of the political difficulties of liberalizing the quotas.

27 The LDP wins a majority in the House of Councillors elections. Although hailed as an LDP victory, surprising gains were made by new single-issue parties.

27 The OECD releases its annual review of the Japanese economy and calls for continued market liberalization and stimulative measures to encourage world recovery.

28 Prime Minister Nakasone orders measures to increase imports, including tariff reductions and simplification of import procedures.

29 The House Science and Technology Committee considers joint research and development ventures in the high technology sector. Interest in such ventures stems from their use in Japan.

30 The Reagan administration files a complaint with the GATT protesting Japanese agricultural quotas on a series of products other than beef and citrus.

July

1 Japan announces its intention to seek consultation with GATT on high tariffs imposed by the U.S. on motorcycles and by the EC on digital audio disks.

4-5 The U.S.-Japan Energy Working Group meets in Tokyo and agrees that diversification of supplies must continue. But no agreement is reached on increasing bilateral energy links.

5 The United States announces restrictions on imports of stainless steel and other specialty steel products, claiming serious trade distortion has injured the domestic industry. While not included in the original petition, imports from Japan are included in the restrictions.

5-7 EC-Japan working-level consultations are held in Brussels to discuss the implementation of Japanese voluntary trade restraints and EC members' individual trade barriers.

6 American and European members of the North Atlantic Assembly in Tokyo call for an increased defense role by Japan, citing the world-wide Soviet threat.

7-8 The U.S.-Japan industrial machinery task force meets in Washington to come up with ways to reduce bilateral tensions in this sector.

8 The 20th U.S.-Japan Businessmen's Conference is held in Chicago and submits to both governments a plan to solve problems in the areas of trade laws and practices, services trade and agricultural trade.

8 The fourth regular consultations on Japan-U.S. military technology are held in Washington to work on a list of particular items of U.S. interest.

10 The U.S.-Japan GATT consultations on agricultural trade begin in Geneva. At issue are a number of agricultural products (other than beef and citrus) subject to quota restrictions in Japan.

11-12 Working-level bilateral talks on Japanese industrial policy are held in Washington, at which U.S. officials seek clarification of Japanese policies in order to determine if retaliatory action might be justified.

12 The Nakasone cabinet approves guidelines for drafting the budget for the next fiscal year that call for a cut in spending, but a 6.88-percent increase in defense is proposed.

12 At the GATT meeting in Geneva, Japan protests an EC proposal to raise import duties on Japanese digital audio disk equipment; Japan and the EC oppose U.S. import restrictions on specialty steel products.

12 The House Science and Technology Committee considers Japan's technological advances and their relevance to current and future competitive positions.

13 The first U.S.-Japan GATT consultation on Japanese motorcycles is held in Geneva, with Japan arguing for removal of the new, higher U.S. duties.

13 Prime Minister Nakasone asks for policies to expand imports and rectify the rising Japanese trade surpluses.

13 The House Banking Committee considers Japan's industrial policy. Witnesses testify that a Japan-like system cannot be adopted in the United States.

14-15 U.S.-Japan working-level talks on bilateral trade issues are held in Washington.

14 Forty-two U.S. senators send a letter to Prime Minister Nakasone demanding liberalization of Japan's beef import quotas.

16-17 MITI Minister Uno attends the trade ministers' conference in London; trade leaders from Japan, the U.S., Canada and the EC agree to report future voluntary export restraints to GATT.

19 The Japan Committee for Economic Development, a domestic group in Japan, advocates agricultural import concessions to the United States.

19 The Senate Foreign Relations Committee examines the foreign policy implications of exporting Alaskan oil to Japan.

21 In an interview with the Japanese press, USTR Brock expresses hope for extension of Japan's voluntary auto export restraint.

22 The Central Union of Agricultural Cooperatives (Zenchu) criticizes a report issued by the Federation of Economic Organizations (Keidanren) that had called for liberalizing agricultural imports.

25 USTR Brock testifies before the Joint Economic Committee on foreign industrial policy targeting practices, arguing that the United States should not emulate such actions, but choose a path that encourages domestic growth and strengthens the international trade rules.

26 Prime Minister Nakasone orders the government ministries to come up with comprehensive foreign economic measures by September.

26 More than one hundred U.S. congressmen send a letter to Prime Minister Nakasone urging an extension of Japan's voluntary auto export restraint.

26 The House Banking Committee considers development of the U.S. machine tool industry and the role of foreign competition (mainly from Japan).

27 The House Banking Committee considers the development of the U.S. aerospace industry and prospects for internationalization of the industry.

28 The House Banking Committee considers the development of the U.S. steel industry and the response to competition from low-wage countries.

31 Ambassador Okawara addresses an agriculture commitee at the National Governors Conference, countering the American complaints about Japan's agricultural import barriers with criticism of U.S. restrictions.

August

1 U.S., Japanese and West German governments begin coordinated intervention in foreign exchage markets to halt the rise of the dollar. But financial experts doubt the effectiveness of such moves in light of economic conditions.

3 MITI proposes financial measures to promote manufactured imports ranging from import finance subsidies to expansionary fiscal policy. These are part of the debate over comprehensive measures to be completed by September.

4 President Reagan rejects a congressional demand that Japan voluntarily restrain steel exports, but announces establishment of a tripartite Steel Advisory Committee.

9 The OECD releases its annual review of the Japanese economy, pointing out continued dependence on export-led growth and the need to stimulate domestic demand to counterbalance this.

9 Japanese and American representatives at GATT debate U.S. specialty steel import quotas after failing to reach a private accord.

12 The Nakasone cabinet approves a new long-term economic plan with goals set at 4 percent real GNP growth, a reduction of unemployment to 2 percent, elimination of budget deficits by 1990 and a 3-percent limit on inflation.

15 Treasury Deputy Secretary McNamar to confer with Finance Minister Takeshita and Governor Maekawa of the Bank of Japan on financial market matters.

16 The Department of Commerce clears five Japanese TV makers of dumping charges, temporarily halting the longest legal dispute of its kind. The petitioners plan to appeal.

17-18 U.S.-Japan working-level consultations on Japanese military technology transfers fail to bridge the gap on actual mechanisms implementing transfers.

17 The Japan Automobile Union opposes Nissan's investment in the United Kingdom, saying it is a costly and unnecessary diversion of financial resources.

19 The Japanese government releases its annual white paper on the economy, which blames stagnant capital investment and residential construction for the continued economic doldrums.

20 The Commerce Department lifts export restrictions on oil and natural gas pipeline equipment to the Soviet Union, ending a bitter feud with American allies.

20-23 Director General Tanikawa of the Japanese Defense Agency holds talks with Defense Secretary Weinberger, who praises Japan's efforts to increase defense spending and requests more facilities for the U.S. fleet.

22 Agriculture Minister Kaneko confers with Chairman Iwamochi of the Central Union of Agricultural Cooperatives (Zenchu) on U.S.-Japan agricultural trade issues. Absolute opposition to liberalization continues.

26 Japan's annual report on defense is released, stressing the world-wide Soviet threat and the need for Japan to contribute to the West's security.

30 Japanese officials visit Washington to sound out reactions to a possible loosening of Japanese antitrust laws. U.S. reaction is negative.

30 U.S. and Japanese officials agree to reopen agricultural trade talks in September, hoping for progress on the beef and citrus issue before President Reagan's visit to Tokyo.

31 Ambassador Mansfield calls for liberalization of Japan's agricultural market as a sign to Americans that Japan is a good trading partner.

September

1-4 The Sixth Shimoda Conference, a private bilateral meeting of businessmen, specialists and government officials, held this year in Virginia, calls for the creation of groups to study bilateral problems. Secretary of State George Shultz addresses the group.

2 A Korean Air Lines (KAL) plane is shot down by the Soviet air force. Japan and the United States denounce the act in a closely coordinated response.

2 GM President McDonald meets with Foreign Minister Abe in Tokyo to discuss the auto export restraints and the GM-Toyota venture.

2 Japanese citrus fruit producers from 25 prefectures oppose import liberalization of citrus fruit and juice.

2 Ambassador Mansfield calls for extension of Japan's voluntary auto export restraints in the belief that U.S. producers can pull out of their slump in one more year.

5-7 Japan-China ministerial talks in Beijing result in a denunciation of the Soviet KAL attack and agreement on cooperation in agriculture.

6-17 A Japanese government-sponsored trade mission tours major cities in the United States as part of a plan to promote imports.

8-9 The United States and Japan continue their talks on agricultural import quotas at the GATT in Geneva.

8 The first U.S.-Japan venture capital conference is held in Tokyo between private firms. They agreed to coordinate efforts to improve the tax environment for venture businesses in both countries.

12 The Japanese Diet passes a resolution condemning the Soviet shooting of the KAL plane; the Cabinet announces flight bans on Aeroflot and on Japan Air Lines flights to the Soviet Union.

12 Prime Minister Nakasone pledges import increases in a letter to President Reagan.

12-13 The third round of U.S.-Japan industrial policy talks are held in Tokyo.

14-15 U.S.-Japan agricultural trade talks in Tokyo on beef and citrus end in stalemate as the Japanese continue to rebuff the U.S. pressure for a timetable for complete liberalization.

14 A Japanese oil industry mission on Alaskan oil exports leaves for the United States to discuss commercial details with Alaskan officials.

14 The Japan Automobile Manufacturers' Association opposes extension of voluntary auto export restraints.

16 The Economic Planning Agency releases GNP data for the second quarter of 1983, showing an annualized real growth rate of 3.6 percent. Much of the upturn in growth is due to exports.

16 The Joint Economic Committee begins a series of hearings on industrial policy and job training in an attempt to understand the relationship between industrial policy and employment.

20 An EC delegation meets Japanese officials, urging tariff reductions and increased purchases of European manufactured goods.

20 The House Ways & Means Committee votes against domestic content legislation following the recommendation of its Trade Subcommittee. The action by the influential committee dampens prospects for the bill's adoption.

21 The House Energy and Commerce Committee holds hearings on a completed trade case in which Mitsui and Co. was found guilty of customs fraud.

22 Ambassador Mansfield calls for gradual market opening by Japan in agricultural, retail and financial sectors.

22 President Reagan corresponds with Prime Minister Nakasone on the intermediate nuclear force reduction negotiations with the Soviet Union, assuring him that no deal sacrificing Asian interests will be made.

23 The Senate Banking Subcommittee on International Finance begins a series of hearings on U.S. basic industries. Lax enforcement of U.S. trade laws is criticized by industry witnesses.

26-27 Trade ministers of the United States, Canada, Japan and the EC meet in Ottawa to discuss means to counter the growing trend toward protectionism.

27 The Senate Government Affairs Committee moves on a trade reorganization bill that differs significantly from an administration-supported version. Industrial policy aspects separate the two sides.

27 Keidanren calls for import liberalization (including agriculture) while also criticizing the U.S. unitary tax system. Japanese agricultural interests attack the statement.

27-30 The IMF-World Bank annual meeting is held in Washington with delegates struggling to work out an agreement to refinance third-world debt.

28 MITI Minister Uno meets with USTR Brock in Washington to discuss export restraints and other issues.

28 Foreign Minister Abe meets with Secretary of State Shultz in New York to touch on several deadlocked issues such as agricultural trade. Mr. Abe also advocates a more active Japanese role in the United Nations.

28 Foreign Minister Abe addresses the U.N. General Assembly, denouncing the Soviet attack on the KAL airliner and the Soviet military buildup in the disputed northern islands.

October

4 The Liberal Democratic Party's agricultural caucus passes a resolution opposing expanded farm product imports.

5 A Keidanren trade mission leaves for Europe to supply information on opportunities and practices in the Japanese market.

5 Farmers file protest and hold demonstrations as part of the agricultural lobby's efforts to head off import liberalization of the beef and citrus market.

5 The EC Commission sends a letter to Prime Minister Nakasone on Japanese market access, warning him of retaliation and multilateral action if Japan does not accelerate its liberalization efforts.

6 Hitachi and IBM reach an agreement on the industrial espionage civil suit when Hitachi agrees to allow IBM to inspect its new products, pay IBM's legal fees and sign a software cross-licensing agreement.

7 Alaskan Governor Sheffield meets with Foreign Minister Abe in Tokyo on Alaskan oil export prospects.

10 Twelve U.S. senators urge President Reagan to lower the level of Japan's voluntary auto export restraints, claiming that the domestic auto industry needs more time to recover.

11 Japanese steel makers agree to self-restraint on rolled steel exports to the United States beginning in 1984 in order to avoid legal battles with U.S. producers.

11-12 Japan-U.S. Southeast Association holds meetings in Kyoto and the 350 businessmen call for efforts to prevent protectionism, increase liberalization and oppose the unitary tax system.

12 The Tokyo District Court finds former prime minister Kakuei Tanaka guilty on bribery charges in the Lockheed scandal. While expected, this dramatic conclusion to the long-running trial heralds a political crisis for the ruling Liberal Democratic Party.

12 Foreign Minister Abe arrives in Seoul to attend the funeral for Korean officials killed in the Rangoon bomb explosion. Japan has strongly condemned the terrorist attack.

12 Secretary of Agriculture Block meets with Ambassador Okawara on the beef and citrus trade issue in a futile attempt to get the negotiations going. Neither side is willing to narrow the wide gap between their positions.

12 Treasury Secretary Donald Regan urges Japan to strengthen the yen in order to alleviate the political pressures on both governments from the continued large trade imbalances.

12-13 Japan and the United States reopen agricultural trade talks in Washington but adjourn after meeting for only two hours as the two sides stick to previously rejected proposals.

13 Commerce Secretary Baldrige presses Japan on pending trade issues in order to pave the way for a smooth presidential visit to Japan.

13 Secretary of State Shultz emphasizes the long-term approach in a broader perspective for President Reagan's visit to Tokyo to minimize current frictions.

13-14 Japan-New Zealand working-level consultations in Tokyo focus on agricultural issues such as meat and dairy product trade.

13-15 A Japan-Soviet trade conference in Moscow signals the beginning of a rebuilding process after relations were damaged by the KAL incident. The two sides agree to further talks, but no new economic deals are made.

17 Forty-one U.S. congressmen ask President Reagan to press Japan to buy more American coal. They seek Japanese investment in mining and port facilities as well as coal contracts.

17 The EC Commission endorses in principle a proposal to double import tariffs on Japanese digital audio disc players to nearly 20 percent in exchange for tariff elimination on imports of tape recorders.

17 A Government Accounting Office report analyzes the dissatisfaction of American firms with NTT's purchase record as the three-year agreement approaches its end.

17 Prime Minister Nakasone is briefed by Ambassador Okawara on bilateral economic issues in the United States in preparation for Mr. Reagan's visit.

17 The U.S.-Japan Advisory Commission releases an interim report stressing the need for bilateral cooperation and an understanding of the bilateral and global economic links.

17 Japanese farm leaders and Keidanren officials discuss agricultural import policy in an attempt to reconcile differences between the two groups.

21 Japan announces a comprehensive economic package to remedy trade surpluses that includes tax cuts, import promotion, yen internationalization and financial liberalization; the Bank of Japan announces a 0.5-percentage point official discount rate cut to accompany the new policy package.

24 Former Defense Secretary Brown meets with Prime Minister Nakasone in Tokyo to discuss the bilateral defense relationship.

24 MITI announces establishment of the Export Order Committee to monitor Japanese export patterns to placate trading partners complaining of export surges and to pre-empt future problems.

24-25 Japanese and U.S. antitrust officials hold their annual meeting in Washington to discuss developments in both countries.

27 Prime Minister Nakasone proposes a new round of multilateral trade negotiations to Director General Dunkel of GATT that would focus on international services trade.

27 A nonbinding resolution is proposed in the Senate to keep Japanese voluntary auto export restraints at the current level for another year.

29 A U.S. mission arrives in Tokyo to discuss the acquisition of weapons-related technologies from Japanese manufacturers.

31 West Germany's Chancellor Kohl arrives in Tokyo and calls for Japan to continue its liberalization moves and for Japan's trading partners to put their economic houses in order.

31 MITI Minister Uno and U.S. Trade Representative Brock begin talks on Japanese auto export restraints in order to reach agreement prior to President Reagan's upcoming trip to Tokyo.

November

1 MITI extends the voluntary export restraint agreement on automobiles to the United States for a fourth year, but includes a 10-percent increase in the volume of cars to be shipped. The small increase is allowed over objections by Chrysler and Ford due to the growing strength of U.S. car sales.

3 The U.S. House of Representatives passes the auto domestic content bill by a 219-199 vote. While passage in the Senate is unlikely, it is a defeat for the administration and Japan.

8 U.S. and Japanese representatives sign a note on defense technology transfers, establishing administrative procedures. It may still be some time before actual transfers take place.

9 President Reagan arrives in Japan for a 4-day visit amid a brewing political crisis in Japan over former prime minister Tanaka's conviction and refusal to resign his Diet seat.

10 Treasury Secretary Regan and Finance Minister Takeshita issue a joint press statement on yen "internationalization," expressing agreement in principle and listing several reforms that might increase the yen's use.

11 President Reagan addresses the Japanese Diet, emphasizing the U.S.-Japan security alliance and downplaying trade problems. He also releases a joint energy statement with Prime Minister Nakasone pledging more cooperation to reduce dependence on foreign energy sources.

14 Sony Corp. and Kyocera Corp. announce cooperative efforts to oppose U.S. unitary tax laws, including pursuit of legal and political remedies.

14 Japan-USSR trade talks begin in Tokyo after a long hiatus. Both sides are very cautious, trying to avoid disruptive issues.

11 The Japanese government lifts anti-Soviet measures instituted after the KAL incident while continuing to press the Soviets for a full accounting and supporting international investigations.

16 A survey finds Prime Minister Nakasone's popular support increasing to 43% after Reagan's visit, thus reversing a downward trend.

17 The U.S. Treasury Department holds hearings on the unitary tax system. Officials from Japan's Foreign Ministry and from Sony Corp. testify.

22 Prime Minister Nakasone underscores support for keeping Japanese defense spending below 1 percent of GNP, fending off pointed questions by opposition parties during Diet budget debates.

23 PRC communist party General Secretary Hu Yaobang arrives in Tokyo for an unusually long eight-day trip. While downplaying any threat from a re-armed Japan, Mr. Hu focuses on other trouble spots such as Russian missiles and the Indochina situation.

28 Prime Minister Nakasone dissolves the lower house of the Diet and sets general elections for December 18. An election had been expected for some time and accounts for the lack of heavy American trade pressure in advance of President Reagan's trip to Tokyo.

29 Preliminary polls indicate the LDP retaining as many as 270 of its 285 seats in the December general election.

December

1 NTT and IBM agree on development of data communcations software. The agreement is seen as an entry point for IBM into NTT's proposed information network system.

1 Unitary tax hearings held in Washington by a U.S. task force decide to postpone any action on the matter. Japanese business organizations, disappointed with the move, announce they will mount their own lobbying effort to repeal the system.

5 *Asahi Shimbun* reports a decline in Prime Minister Nakasone's popularity to 48 percent, claiming it represents concerns over economic and defense policies as well as the political ethics question.

5 A U.S. appeals court reinstates the 14-year old Zenith color TV antitrust case against Japanese makers, claiming the test of evidence was applied too strictly.

8 Keidanren announces formation of a delegation to oppose U.S. unitary taxes. The group of businessmen will visit the 14 states that employ the tax as well as visiting Washington.

8 The Japanese Defense Agency (JDA) considers changes in the 5-year defense program. Reallocation of funds among fighter aircraft, antisubmarine capacity and munitions stockpiles is debated in the government.

9 MITI's Industrial Structure Council urges a new software copyright law significantly different from that employed in other industrial countries. U.S. officials immediately express concern over the proposal.

16 President Reagan caves in to pressure from the domestic textile industry by approving tighter rules on textile imports. Japan is affected, as well as a number of other nations.

18 Elections for the lower house of the Diet deal a heavy blow to the LDP, which loses 34 seats, enough to imperil its hold over the government. An alliance with independents and the New Liberal Club, though, allows the LDP to continue to control the government and key Diet committees.

19 Senior U.S. government officials meet under direction of Vice President George Bush to discuss U.S.-Japan relations in light of the Japanese election results.

20 The Economic Planning Agency (EPA) announces an annualized growth rate for the 3rd quarter of 6.2 percent, reflecting continued strength of export growth but also renewed activity in business investment, personal consumption and residential construction.

20 GM and Toyota, bowing to pressure from the FTC, sign a consent order barring them from anti-competitive practices while conducting their joint-venture.

21 The United States and Japan temporarily extend the NTT procurement agreement for 90 days while negotiators work out a replacement for the pact that will give American companies a more equal access.

21 Japan Socialist Party (JSP) chairman Ishibashi describes Japan's Self Defense Force as a "legal entity," but "unconstitutional," marking a significant shift in party policy toward the maintstream. The move is seen as part of the chairman's efforts to enhance the party's credibility.

22 FTC approves the proposed GM-Toyota joint venture by a 3-to-2 vote. Domestic competitors immediately blast the action.

24 Prime Minister Nakasone promises to limit the influence of former prime minister Tanaka in LDP affairs. However, since the announcement was written by a Tanaka faction member, many greet his announcement with skepticism.

26 Yasuhiro Nakasone is reelected prime minister and forms a new cabinet, including representatives from all factions. While the Tanaka faction retains six portfolios, they are of reduced importance. The new Cabinet also includes a non-LDP member, a rare occurence.

Part II • Introduction

After two tense years, bilateral relations showed a noticeable improvement over the course of 1983, but the improvement and the factors causing it proved to be only temporary. At the beginning of 1983, longtime observers felt that relations had reached a postwar low, with Washington exerting increasingly heavy-handed pressure on Japan. But the year brought improved economic conditions, providing a better climate in which bilateral relations could unfold. In this improved economic climate, some outstanding issues were solved during the year, contributing to the improved tendor of the relationship. However, a more important factor was the administration's decision to back off its pressure during Japan's Diet elections, which were held in December and had been widely anticipated for a number of months prior. With election-year pressures in the United States beginning to emerge by the end of the year, the more conciliatory atmosphere of the second half of 1983 proved to be short lived.

Economic Background

With the economic recovery humming along in the United States, other industrial and developing countries began to slough off recession as well. This was the first time in several years that the global economy showed any signs of recovery, and even as weak and uncertain as this performance was, it was welcome news. In this world context, economic growth was stronger in the United States, and Japan began to show signs of recovery from the lingering stagnation caused by the 1979 oil shock as well. Improved domestic economic performance in Japan and the United States does not necessarily translate into friendlier economic relations, but there can be no doubt that renewed economic growth was a beneficial influence during the year.

The Global Economy

Japan and the United States interact within the context of international economic developments, and modest recovery was evident at this large scale. The International Monetary Fund (IMF) reported a sharp rise in industrial production among its industrial-country members throughout 1983, after a serious decline from mid-1981 to the final quarter of 1982. This is reflected in the IMF's estimate of 1.5 percent real GDP growth for the world in 1983, and 3.0 percent for the industrial countries. Much of the industrial nation picture is skewed by the United States and Japan; unfortunately, Europe was on a weaker upswing than either Japan or the United States, suggesting that trade problems could continue to mount in both countries' relations with the European Community.

The tentative world growth recovery was not reflected in trade for the year, with the volume of trade still trending down, continuing the pattern of 1982. At least the decline was smaller than in 1982, and some of the international debt problems of the developing countries began to look less serious.

World prices also portrayed a mixed picture. The IMF estimates that world consumer prices rose over 13 percent for the year, a slightly higher inflation rate than in 1982. However, in a number of industrial countries inflation dropped to low levels, expecially in the United States and Japan. In previous years, the determination to stop inflation caused serious deflationary effects in the industrial nations. By 1983, prices were under control enough that attention could turn once again to growth.

The exchange-market picture emerging from the interaction of all these economic variables remained relatively unchanged. The dollar strengthened against many major currencies but held steady against the yen. The exchange-market outcome was the result of continued high U.S. interest rates plus the continued assumption by currency traders that the United States is a haven in times of international unrest. Currency rates were the result of market evaluation and not government interference, meaning that terms like "undervalued" have little real meaning. Strictly from a merchandise trade standpoint, U.S. exports were placed at a disadvantage because of the movement of the dollar, but currency rates are not determined by merchandise trade developments alone. These currency developments proved to be an important factor in U.S.-Japan trade outcomes and in bilateral issues.

The meager data available to date on global economic performance for the year was only mildly encouraging. The economic upswing in the United States appears to have outpaced that of most other countries, meaning that even without the added effect of the strong dollar, the United States was pulling in imports from other countries faster than they could absorb U.S. deliveries. the rising trade deficit in the United States certainly helped to shape American government attitudes on international economic policy.

At least the news on the international trade agreement front was steady. The 1979 Tokyo Round agreement of the General Agreement on Tariffs and Trade continued to be implemented according to schedule (or ahead of schedule in Japan), while support was building in both Japan and the United States for a new round of multilateral negotiations to consider issues such as trade in services. This represented a considerable improvement over the near impasse at the GATT ministerial meeting at the end of 1982. Further information on international economic developments is contained in Part III of this yearbook.

Japan

Japanese observers had been hoping for some time that economic recovery would bring an end to export-led growth. Unfortunately, real GNP growth for the year came to 3.0 percent, actually down slightly from 1982, and net exports continued to be the fastest growing sector. Most domestic sectors of the economy continued to perform rather weakly, including personal consumption, residential housing construction and nonresidential business investment. However, on a quarterly basis, there was some indication that domestic growth was picking up.

As in 1982, the government was unable to do much to provide additional stimulus to the domestic economy. The strong commitment to cut the size of government deficit spending meant that little additional fiscal stimulus was possible during the year. However, modest improvement in the fortunes of the yen meant that by the end of the year, the government was able to cut interest rates marginally in order to provide a bit more monetary stimulus. With these constraints on the principal means by which government influences the course of the economy, the Japanese could only hope for an independent renewal of growth in the private sector. Tokyo continued to be in a difficult policy position, fearing the international consequences of rising trade surpluses but unable to follow macroeconomic policies that could lower them.

Because of policy constraints and the very modest improvement in domestic sectors, Japan recorded a sharp increase in its merchandise trade surplus in 1983. At $20.5 billion, Japan's customs clearance trade balance set a record—the result of a 5.8-percent increase in exports and a 4.1-percent drop in imports. The import performance primarily reflected the drop in the price and quantity of oil, while the strong dollar and renewed growth in the United States and other countries contributed to export growth. Even though the rising surplus was the outcome of economic factors, it damaged Japan politically, since surpluses fed into the increasing complaints of unfairness levied by the United States and other trading partners. In that sense, improved world economic conditions were certainly a mixed blessing for Japan. Further details on the Japanese economy are presented in Part IV of this yearbook.

The U.S. Economy

The recession finally came to a definitive end with a 3.3-percent preliminary estimate of GNP growth for the year. Moreover, the economic upswing exceeded most expectations. Although marred by worries over the size of government deficits, the return to growth was accompanied by the lowest inflation rates since the 1960s and unexpectedly large drops in unemployment. There is no doubt that the sudden return to economic prosperity was a factor in muting some of the criticism directed toward Japan and certainly dampened interest in the topic of industrial policy. However, as a result of both the high interest rates that pulled in capital from abroad and the renewal of economic growth, the United States was developing an enormous merchandise trade deficit—both globally and with Japan. The global trade deficit (measured on a c.i.f. basis) was a record $69 billion, well above 1982's $43 billion. Further details on the U.S. economy are contained in Part V of this yearbook.

Bilateral Outcome

As might be expected, bilateral trade figures for the year registered a larger deficit for the United States. U.S. customs-clearance trade data show a record bilateral U.S. deficit of $19.5 billion, although in contrast to 1982, both exports and imports grew. In fact, the worsening of the bilateral imbalance was surprisingly mild considering the strength of the dollar and the strength of the U.S. recovery. As a result, the increase in the bilateral imbalance accounted for only a small portion of the increase in the global U.S. imbalance for the year.

American observers are always eager to lay the blame for trade deficits with Japan on barriers to imports. However, that position fails to explain why the imbalance should continue to widen despite successive efforts to dismantle remaining barriers—a process that continued in 1983. The economic factors that accounted for 1983's trade tally were a result of different domestic policies taken for what were considered legitimate reasons in each country. Not only was GNP growth higher in the United States than in Japan, but the growth in sectors such as private consumption and corporate fixed investment that are important to bilateral trade showed more rapid growth in the United States. Nevertheless, the wider bilateral imbalance was sure to haunt trade policy discussions between the two countries in 1983, and continued to do so into 1984.

Political Factors

Elections were an important element in bilateral affairs in 1983. Because no government can risk offending voters if it intends to remain in power, and because concessions on issues such as beef and citrus quotas would be violently opposed by constituents of the Liberal Democratic Party (LDP), Prime Minister Nakasone was in no position to yield on these items once it was clear that elections would be called. In addition, officials in Washington seemed to realize that Mr. Nakasone's concern over maintaining good relations with the United States meant that he was likely to be more responsive to U.S. demands than other potential prime ministers. It was generally agreed, therefore, that the United States should refrain from pushing for concessions that could weaken the LDP or Mr. Nakasone. That elections would take place late in the year or by early 1984 was evident by September, and from that point, most issues were handled discretely or actually shelved, though hardly forgotten.

On the U.S. side, the consolidation of the foreign policy process also affected the relationship. The first two years of the Reagan administration were characterized by little coordination among the economic, military and diplomatic goals and bargaining toward Japan. As a result, the administration's tone toward Japan on economic issues had been very strident. While the animosity toward Japan did force a number of concessions, some administration officials were more concerned over the loss of goodwill. By the summer, the economic issues had been folded into the larger diplomatic questions and as result, trade negotiators were told to speak more softly. This greater coordination was made more formal in the wake of President Reagan's trip to Tokyo with the appointment of Vice President George Bush to handle interagency coordination of policy toward Japan.

The hesitation imposed by the upcoming Japanese election and the emergence of greater policy coordination in Washington was apparent in the events surrounding President Reagan's trip to Japan in early November. The Japanese have traditionally tried to solve outstanding issues in advance of official state visits to avoid embarrassment. This time, the Japanese agreed to offer an extension of auto export restraints through 1984. As a result of the election pressures, though, the economic package that the Japanese government announced on October 21 contained little that touched on specific bilateral issues. And when the president visited, economic issues were not a priority item on the agenda. The only substantive announcement was the bilateral statement on capital markets, and most of those measures were in the form of promises for future study or action.

With the announcement at the end of November that elections would be held December 18, any further action on bilateral issues was effectively precluded. When the returns were counted, the unexpectedly large loss of LDP seats meant that the government's energies for the rest of the year were absorbed in efforts to sort out the results and rearrange the Cabinet.

Thus, political considerations contributed in an important way to the lull in economic tension in the second half of the year. By early January 1984, though, the grace period was definitely over. And in the background, the U.S. presidential elections loomed large. The early announcement of continued auto restraints was clearly an effort to derail domestic content legislation as an election year issue. However, the administration could not afford to go into the election campaign looking soft on Japan; regardless of the economic rationality of trade deficits and of Japanese export successes in the United States, election campaign imperatives seemed destined to bring renewed pressure in 1984. These political considerations are covered in greater detail in Parts IV and V of this yearbook.

The Temporary Thaw

At the beginning of 1983, Japan was under fire on a number of issues that had been raised and vigorously pursued by the Reagan administration over the previous two years.

Of most immediate concern was the upcoming Washington trip of the new prime minister, Yasuhiro Nakasone, at the end of January. Preceded by a series of unilateral concessions, the trip set the stage for a successful visit, cemented by a personal friendship between the two leaders and a belief that Nakasone's stronger leadership style and commitment to good relations with the United States would lead to the resolution of some outstanding issues.

The success of that trip was combined with the more favorable economic climate in the United States. With the economic recovery gathering pace, business and political attention turned more to domestic economic news. With these favorable trends modifying negative attitudes toward Tokyo, it may have been easier for the administration to engineer its greater coordination of Japan policy.

These developments by no means implied that U.S. pressure on Japan for continued concessions on trade issues had evaporated. However, by the time that one might have expected Washington's impatience to be wearing thin again, election politics in Japan brought the short-term let-up in the administration's demands.

In many ways, the year brought clear gains to bilateral relations. No less than three meetings occurred between the two leaders—the Nakasone trip to Washington in January, the industrial summit at Williamsburg (preceded by a bilateral summit in Washington) and the Reagan trip to Tokyo in November. The personal tie between the two leaders forged by these meetings certainly helped to keep bilateral relations on a more even keel. In fact, some issues were resolved. Japan made unilateral tariff cuts and passed a package of laws to simplify standards-setting procedures. Some other issues, though, saw little progress, including demands for easing Japan's agricultural quotas and renewal of the agreement on procurement by the Nippon Telegraph and Telephone Public Corporation.

A major sidelight in 1983 was the rise and fall of industrial policy as an issue. Early on, a spate of reports on this subject identified Japan as either a villain to be punished or a hero to be emulated. But with the brisk economic recovery and less than enthusiastic response from the economic community, interest in legislation to counteract foreign industrial policies or to erect a domestic version seemed to wane.

While the protectionism implicit in the attacks on foreign industrial policies faded, the improved tone in bilateral relations came at the price of U.S. protectionist decisions on some important issues. Extensions in the auto restraint agreement, the new procurement rules for federally funded highway construction, specialty steel restraints, and stringent new textile restrictions all attest to this dangerous trend—which ignored the fact that Japan continued to reduce its remaining trade barriers. If improved relations must be bought at this cost, there is no reason to be optimistic.

Not only was protectionism part of the price for peace, but the year ended with a number of outstanding disputes just waiting for the post-election situation in Japan to be resolved. Taken as a whole, the events of the year suggest that the tendency for Japan to become more open and the United States to turn more protectionist will very likely continue. While such a combination placated pressure groups in the United States, it was at variance with long-term U.S. economic and political interests.

Part III · The World Economy

Japan and the United States interact against the backdrop of world economic and political developments. Since the oil shock of 1979, the world has been reeling from recession and inflation. These had provided a deteriorating environment for bilateral relations in 1981 and 1982. In 1982, the volume of world trade contracted rather sharply and the ministerial meeting of the General Agreement on Tarrifs and Trade (GATT) ended in near failure. Finally, 1983 brought some improvement in both the economic performance and the tenor of the international meetings during the year. The shift was weak but still welcome.

Economic Developments

Statistics for 1983 present a quiltwork pattern of healthy and sick nations. While 1983 brought relief to many industrial nations, a number of developing countries were still facing stagnation and high inflation. International trade continued to shrink in overall terms during the year, although an expansionary trend appeared in the last few months. Movements of national interest rates, consumer prices and exchange rates revolved around an axis combining the U.S. recovery and continued high American interest rates. Commodity and oil prices stabilized—the former recovering previous strength while the latter lost ground.

Overview of Growth

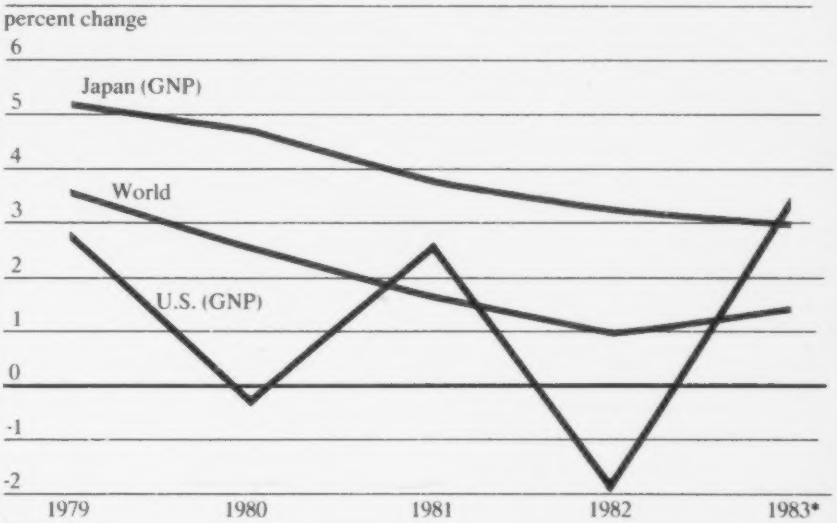
According to the rough estimates of the International Monetary Fund (IMF), world GNP grew at a rate of 1.5 percent in 1983, an improvement over 1982's 1.0 percent, but still below the 1981 or 1980 levels. Thus, the picture was an improvement, but nothing to be excited about.

Industrial Countries The rebound of the industrial nations from the depths of the 1981-82 recession was 1983's most encouraging development. Leading the way, the United States went from 1982's 2.0 percent decline to 3.3 percent growth. Even more impressive was Canada's performance, swinging from a 4.4-percent contraction to a 3.0-percent increase. According to December 1983 estimates by the Organization for Economic Cooperation and Development (OECD), real growth of OECD members as a whole should have turned in a 2.25-percent performance as opposed to 1982's disappointing 0.3 percent real drop. Even if the large U.S. economy is left out of the picture, the industrial nations apparently posted a still weak, though improved, 1.5 percent gain, indicating stronger rates of growth in all the member nations except Italy. Reflecting this general upturn, the growth of industrial production in the OECD nations showed a turnaround, hitting 3.5 percent after a substantial 5.0-pecent drop in 1982.

Japan was strongly affected by the upturn in both Southeast Asia and the United States through trade links, the spillover effects from which has reawakened domestic demand. The Japanese economy performed more weakly than predicted in the first half of 1983, but compensated with a growth spurt in the third quarter and a solid gain in the fourth. While the recovery was export-led for the most part, business investment and housing construction began to pick up speed in the latter half of the year. However, the upswing in the United States meant a more rapid growth rate than Japan's for the first time since 1976.

The European economies remained in low gear, constrained by weak domestic demand and austere fiscal policies. Only three countries—Spain, Finland and Turkey—broke the 2 percent growth level, although others made marginal gains over 1982. Members of the European Community (EC) doubled their 1982 performance, though this increase amounted to only a 1-percent overall real GNP growth. This aggravated political problems, especially British demands for a cut in the United Kingdom's contribution to the Communtiy coffers. France and other EC members, also suffering from weak growth, were unwilling to relent, causing a near collapse of Community finances.

World Economic Growth in Real Terms



**preliminary*

Source: International Monetary Fund

All these factors led to a worsening in unemployment in the industrial nations, with the exception of the United States. Over 33 million workers were idle in the OECD countries, representing 9 percent of the labor force. In some nations—the United Kingdom, France, Italy and Canada—the unemployment rate improved, although it was still high at between 8 and 12 percent; in other countries, like Germany and Japan, the labor market continued to deteriorate. For these two, this was particularly bad news given their performances in previous decades, but it may reflect a changing demographic picture (e.g. in Japan, women are entering the job market in record numbers).

Developing Countries Other areas of the world were unevenly influenced by the recovery of the developed nations. At extreme poles were Asia and Central/South America.

In Asia, the recession in most cases bottomed out in 1983 as suppliers worked feverishly to feed the import-hungry U.S. recovery. The average growth rate for the five ASEAN nations plus Korea, Taiwan and Hong Kong hit 5.3 percent—above 1982's "low" of 3.6 percent, but still below the 6.8-percent level of 1981. The unemployment picture, built solely on scanty information, was not quite as heartening. Partial figures indicate a slight increase in the average number of unemployed persons in nearly all Asian nations.

Government policies in these successful Asian developing nations were in a period of adjustment in many of these states, trying to cope with changing domestic and international economic conditions. In general, they were trying to restructure to produce higher quality products; the volume-oriented export approach followed in the boom decade of the 1970s was no longer considered viable given the protectionist tendencies of their major trading partners.

At the other end of the scale, Latin American countries continued to be mired in the depths of a recession, unable to take advantage of stable commodity and energy prices. Sharply reduced or negative growth rates persisted, although the effects of stringent economic adjustment policies began to manifest themselves. Growth in the region was still slightly negative, but most governments (except Brazil) were predicting positive rates of growth for 1984. Inflation remained a major headache, as did unemployment, but new economic plans developed in conjunction with international monetary authorities were hoped to make a dent in both these problems. These plans refocused attention on domestic demand and adjustment of import and export mixes, coupled with renegotiation of outstanding debt. But the process of weaning themselves from heavy international borrowing was ~~not~~ politically palatable for Latin American countries—witness the riots in Brazil when that government announced an end to inflation-indexed wage adjustments.

Inflation

World inflation made a slight comeback. In 1982, consumer price inflation had actually abated a bit by 1.7 percentage points, but in 1983 reversed that moderation by rising around one percentage point to 13.5 percent, according to IMF statistics. Commodity prices contributed to this rise by registering a 5 percent gain, although prices were still 20 percent lower than the levels prevailing as recently as 1981. Among commodities, energy prices stabilized at lower levels, helping the industrial nations' recovery.

Commodity Prices A review of available information shows prices for all commodities at just 80.1 percent of their 1980 levels. However, price levels for food, beverages and agricultural raw materials all rose between 1 and 8 percent, while prices for metals held steady. Normally when commodity prices rise, exporting nations benefit. In 1983, however, commodity exporting nations, especially those in Africa, were unable to reap any benefits due to adverse factors, including bad weather, increased competition from new suppliers and political upheaval. Wheat prices held relatively steady, while prices for corn and soybeans, two other commodities of importance to U.S. trade, climbed.

Crude oil prices for various grades fell between 6 and 12 percent after the first quarter of 1983, with wide economic effects. Exporting countries had to cut back on their ambitious government-funded development plans while scrambling to maintain unity on pricing and production. Oil importers, on the other hand, saw their bills drop drastically but also watched their exports to oil-producing countries fall. Through production and price discipline, the Organization of Petroleum Exporting Countries (OPEC) stemmed the downward price trend for oil, but clearly wielded considerably less power in world markets. Because importing countries were expected to continue to restrain energy demands through increased efficiency and conservation, depressed oil prices were likely to persist for the immediate future—absent adverse developments in the Iran-Iraq war.

Consumer Prices Changes around the world in this indicator offer an uneven picture. The industrial nations and the rapidly growing Asian developing countries turned in improved inflation performances, but other developing nations continued to suffer.

Among the industrial countries, the United States again stood out as a star performer, along with Japan. Even Britain, Italy and France managed to reduce their painfully high rates. The seven major industrial countries halved their combined 1982 inflation rate in 1983, and OECD nations as a whole dropped their total figure 2 percentage points.

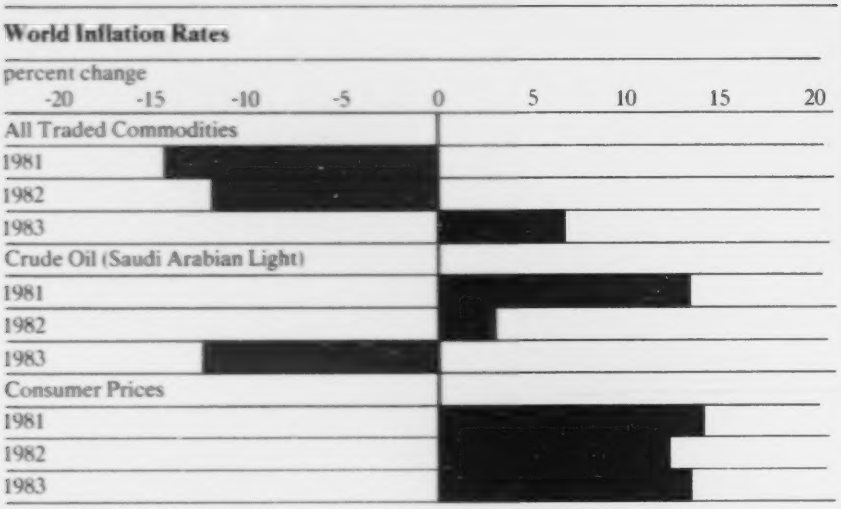
The United States cut its inflation rate nearly in half, bringing it down to 3.2 percent from 6.2 percent in 1982. Following this example, Canada (5.8 percent) and Great Britain (4.8 percent) also chopped their rates almost in half, while France (9.3 percent), Italy (14.5 percent) and Germany (3.0 percent) knocked two or more percentage points off their 1982 figures. However, the other economic effects (slow growth and unemployment) of earlier deflationary policies were still apparent in many of these countries.

In Japan, the extremely low 1.8-percent consumer price increase was not a reflection of the efficacy of government policy, but rather of the considerable slack present in the economy and the cautious attitudes of consumers. Consumer spending was weak for almost the entire year, and that, coupled with rising unemployment, prevented price pressures from building up. As in 1982, the problem for the government was how to stimulate the economy without more deficit spending or interest-rate cuts. While the government did cut the discount rate 0.5 percentage points, this took place too late in the year for much impact.

Again setting themselves apart from other developing nations, the newly industrializing countries of Asia managed to generate substantial growth while holding prices in line during 1983. Despite high inflation in Indonesia, Hong Kong and the Philippines, an eight-country average showed a continued decline in price rises from 7.5 percent to 6.5 percent. In individual terms, Singapore and Korea took first and second place with rates of 1.2 percent and 3.4 percent, respectively. Malaysia, Thailand and the Philippines probably reduced their rates by one to three points, and Indonesia came in at the bottom with a twelve point rise.

The area with the worst inflation problem was South and Central America. The region posted a 130-percent-plus inflation rate for 1983, far worse than its 80-percent figure the year before. Countries with "moderate" inflation, such as Chile (27.3 percent) Colombia (19.7 percent) and Panama (about 2.5 percent), continued to make progress through cautious long-term planning. Argentina (348.8 percent), Brazil (142.0 percent) and Mexico (very close to 100 percent) paid the price for losing their gamble on a rapid, externally fueled growth path. These three countries had to implement harsh restructuring plans and hoped to bring inflation down to less lofty levels. The same problems that plagued their growth plans, however, continued to beset them in their search for lower inflation.

Interest Rates U.S. interest rates showed a moderate drop from the previous year, although they were still above pre-1979 oil shock levels. The Federal Reserve Board held the discount rate for banks at a steady 8.5 percent despite a slight downward trend



Source: International Monetary Fund

in money market rates and Treasury bill yields. Lower borrowing rates, however, attracted consumers back into the housing and automobile markets, helping to spur the recovery.

In Japan, a 0.5-percentage point cut in the discount rate—the first in almost two years—was part of an economic stimulus package presented in October (see Part IV for more details). While this cut depressed the rates for long- and short-term government bonds slightly, its largest influence may have been to encourage a greater net outflow of capital; for 1983 as a whole the net long-term capital outflow was over $17 billion. While it seems that the cut helped small- and medium-sized firms to begin investing again, the change was too late in the year for much of a measurable impact.

Interest rate cuts were made in most European countries as well in an attempt to inject some life into their economies. Germany and Italy cut their discount rates by one percentage point and, as a result, bond yields and money market rates in France, Britain, Germany and Italy all fell by one or more percentage points. But much higher American interest rates continued to attract overseas capital, to the chagrin of European leaders. Accusations over foreign financing of profligate U.S. government spending were lobbed back and forth across the Atlantic, transmitting bitterness to other economic interactions.

International Interactions

Developments on the international scene confirm the very tentative and unevan pattern of world economic improvement. Trade actually declined, though the debt problems of developing countries showed some improvement. Exchange rates were still skewed by high U.S. interest rates. Meanwhile, the uneven economic news left the major international organizations struggling against increasing protectionist pressures.

Trade and Payments

Merchandise Trade A troublesome downward trend in the volume of trade continued in 1983, though at much reduced rates. According to IMF statistics, industrial country exports dropped 1.1 percent to $1.1 trillion and imports fell 1.8 percent to $1.2 trillion, with decreases in both the volume and unit value of trade. While negative, these declines represented an improvement over 1982's export drop of 5.2 percent and import contraction of 6.1 percent. Still, this downturn hampered Third World efforts to latch on to the coattails of the U.S. recovery.

Because of the faster rate of shrinkage in imports, the combined merchandise trade deficit (on a customs-clearance basis) for industrial countries narrowed again to $55.7 billion from $64.4 billion in 1982. This contraction, however, hides the fact that trade balances for six of the 13 industrial nations widened—most prominently the United States, which went from a $42.6-billion gap to a $69.3-billion chasm; Britain ran a poor second, with its red-ink total widening from $2.7 billion to $8.8 billion. Countries registering the largest trade surpluses included Japan ($20.4 billion, up from just $6.9 billion the previous year), Germany ($16.5 billion) and Canada ($11.5 billion). France cut its deficit by almost $9 billion, though this still left it $10.5 billion in the hole.

Oil exporting nations also continued to cut back on trade, although this conclusion is based on data for only three quarters of 1983. This group's exports fell 17.8 percent to $131.7 billion from January to September, while its imports dropped to $106.1 billion—a 7.3 percent decline. As a result, the trade surplus, which totaled $45.7 billion in 1982, fell to $25.6 billion last year. Low oil prices pushed revenues down for all oil exporters, but Saudia Arabia took a particularly hard fall when its export revenues plunged 40 percent in the first six months of the year, although they climbed back up during the third quarter. The Saudis also cut imports back a sharp 44 percent in response to these new conditions.

Non-oil exporting Third World countries, through stringent readjustment policies, reduced their imports during the first three quarters of 1983 by 5.3 percent of a total of $266.5 billion. They even managed to increase exports a small 0.9 percent of $233.9 billion, reducing their combined trade deficit to $32.9 billion from 1982's $58.8 billion (a 79-pecent improvement). However, this bit of good news was overshadowed by continuing debt problems.

Debt Problems Recovering their composure after the 1982 Mexican debt crisis, international financial sources looked at the $660-billion developing country debt with a more rational eye in 1983 and managed to work out programs for the most endangered nations. The overall debt figure represented only a modest 5.4-percent rise over 1982's total amount, reflecting a complex interaction of forces affecting the positions of the developing nations.

The budding U.S. recovery provided an import-hungry market, offering some solace to exporters of commodities and light manufactured goods. Improved terms of trade combined with austere economic adjustment policies helped many countries improve their current-account positions. Lower, stable energy prices were a positive factor for most debtor nations, though oil exporters such as Mexico and Venezuela were obviously affected adversely. The international reserves of non-oil exporting developing nations rose by a sharp 14 percent in 1983 to over $80 billion, outpacing the reserve growth of both the industrial countries (up 11.1 percent) and the oil-exporting nations (up 8.6 percent). Coupled with a simultaneous reduction in holdings of IMF Special Drawing Rights (SDRs) for reserve purposes, this development improved the appearance of Third World nations in the eyes of potential lenders. Finally, modest declines in international and U.S. interest rates helped to hold interest payments to between $60 and $70 billion in 1983.

The percentage of debt under non-concessionary terms remained high, topping 80 percent in 1983, and debtor nations have had to face up to refinancing conditions more in line with commercial standards. These tougher guidelines led some governments to balk at the new lending terms—unwilling or unable to risk the political upheaval they could generate. While official development assistance did not shrink as a percentage of donors' GNP, private financing has become more difficult to obtain, forcing a search for alternatives. One of these was the use of SDRs to meet balance-of-payments needs. Transactions "with designations," which are primarily for payments settlements, totaled $2.2 billion in 1983. For the first time since 1978, however, these were surpassed by transactions "without designation" (those for a wide variety of other bills) by $0.5 billion. This more active use of IMF instruments was in line with principles discussed during international meetings in 1983.

Exchange Rates

Global financial markets continued to be enchanted by the U.S. dollar, lured by the siren song of economic recovery and high real interest rates. According to indices compiled by the Commerce Department, the dollar gained 4.3 percent against a weighted-average basket of 14 industrial country currencies during the first three quarters of 1983, putting it 3.5 percent above its 1971 value, when it was thought to be overvalued. Against a basket of 67 currencies, the dollar looked even stronger —rising 20 percent by the third quarter over the same period in 1982, which placed it nearly 60 percent higher than in 1971. Against individual currencies, the picture was hardly changed. The dollar was up 20 percent against the French franc and British pound and 4 percent over the German mark. Only the yen held its own against the dollar, standing its ground for the first half of the year before weakening a little in the third quarter and then settling in at a new plateau of ¥233-¥234 to the dollar.

Other data on the yen-dollar relationship for the year as a whole show virtually no movement of the yen against the dollar. Fluctuations throughout the year were almost entirely limited to a range of ¥230-to-¥240 = $1, with a brief low of ¥246 in September and a high of ¥230 in January.

In view of Japan's rapidly rising trade surplus with the world and with the United States, one might have expected the yen to appreciate under the existing floating-rate system. But trade flows are counterbalanced by capital flows in the case of Japan. With Japanese interest rates still considerably below those in the United States, capital continued to flow out of Japan vigorously enough to offset the trade-related increase in demand for yen.

While greater stability in the yen-dollar relationship was something that business and government leaders had been hoping would materialize for several years, 1983 brought no contentment because U.S. business remained dissatisfied at the level at which the yen stabilized. With its trade deficit with Japan expanding, the United States took a new tack on this perceived problem of the "undervalued" yen.

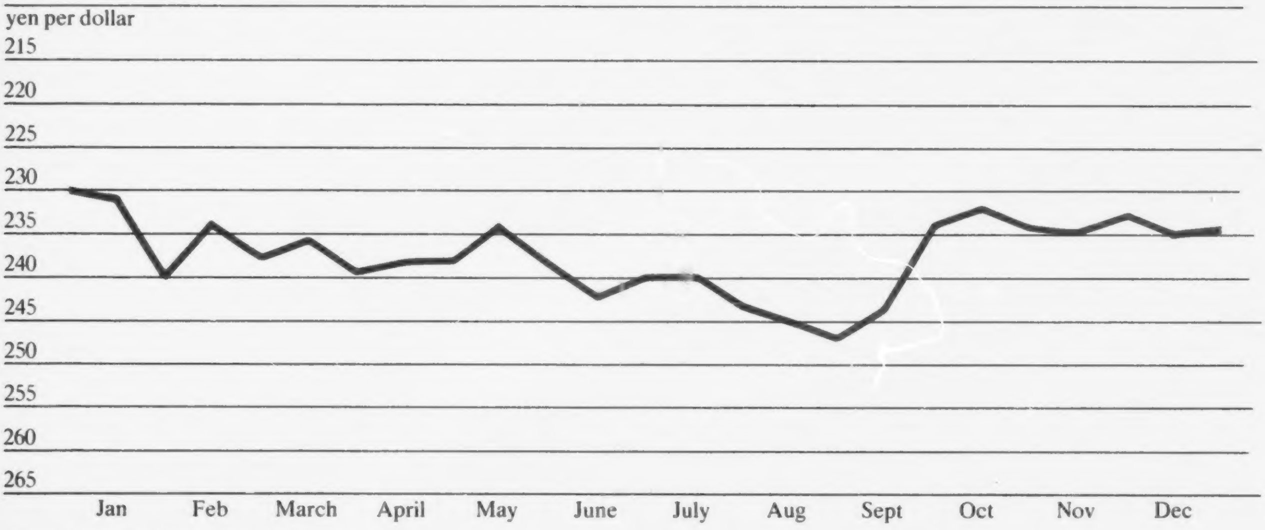
While publicly stating that the Japanese government was not intervening in currency markets to keep the yen depressed, American officials began urging Japan to internationalize its currency. As use of the yen in trade and international money markets grew, the argument went, demand for it would increase and its value would rise. Japanese finance authorities were receptive in theory, but wanted to proceed very slowly to avoid altering the fundamental structure of the Japanese financial system and the government's attendant monetary policy tools. Loosening the government's control over the interest rate structure would not only cause policy problems, but would also be very costly in terms of interest payments on outstanding and new government bonds. Pressure from the United States led to a bilateral statement on what Japan could do to internationalize the yen (see Part VI), but the followup on these issues came mainly in 1984.

Trade Discussions and Agreements

Tokyo Round Implementation The fourth annual round of tariff cuts agreed to in 1979 went into effect during the year. Despite the continued economic slump in some nations, the reductions were carried out with no backsliding by any party. While the cuts had only marginal effects on world trade, they were symbolically important during a period of increasing trade tension and protectionism.

In what was becoming an annual tradition, Japan again made unilateral tariff cuts, urged on it by trading partners. Officials also offered to accelerate planned Tokyo Round cuts in return for mutual reductions in specific items of interest, e.g. semiconductors. While American and European leaders hailed Japan's actions, they did not cease their petitioning for even more cuts.

Quadrilateral Meeting on Trade Following up on the fall 1982 ministerial meeting of the General Agreement on Tariffs and Trade (GATT), representatives from Japan, the United States, Canada and the European Community met in Tokyo on February 11 to discuss trade issues. While the meeting produced a communique full of generalities, it focused on maintaining free trade, the importance of cooperative action to deal with Third World debt problems and the benefits of initiating joint


The Yen-Dollar Exchange Rate

Source: Daily median interbank rate on the Tokyo exchange research projects. The meeting, held at the Japanese government's initiative, was timed to precede the Williamsburg summit of industrial nations.

Group of Thirty On April 22-24 in Tokyo, the Group of Thirty, an advisory body in the IMF composed of representatives from developing and advanced countries, held its annual meeting. In reviewing the current trade situation and world economic conditions, the group called on the United States to reduce its federal budget deficits and on Japan to pursue an expansionary fiscal policy to aid world recovery.

Trade Ministers Meeting In preparation for the Williamsburg summit, trade officials from Japan, Canada, the United States and Europe met in Brussels April 28-29 to discuss cooperation on pressing world problems. Again stressing the importance of free trade, the ministers also took up the problem of Third World debt.

OECD Meeting Combining their annual OECD executive council meeting with another meeting of finance and trade ministers, the industrial nations met in Paris on May 10. The current exchange-rate system was discussed along with other monetary matters. Japanese and European officials urged their American colleagues to change their stance on intervention in currency markets. The Europeans attacked high U.S. interest rates and budget deficits as a primary reason for their inability to pursue expansionary policies. Foreign Minister Abe attended the meeting and felt at the conclusion that Japan would not come in for criticism at the industrial summit meeting, always a nagging fear of the Japanese.

After the OECD meeting, the trade and finance ministers (minus France) stayed on for another day. This gave Japan's Finance Minister Yamanaka an opportunity to reiterate Japan's position on monetary issues. He called for concerted action by the major nations to stabilize exchange rates and noted that Japan was not trying to hold down the value of the yen. As discussed elsewhere in this yearbook, the "undervalued" yen was again becoming a matter of international discussion.

Williamsburg Summit On May 29-30, the leaders of seven industrial nations met to map out general policies on problems of mutual concern. In comparison to 1982's summit, the tone of the meeting was much more upbeat due to the world recovery. The numerous preparatory meetings and discussions listed above served to smooth the way for a harmonious summit. As always, North-South issues, international cooperation and security issues were touched upon.

Of particular note was the issue of sanctions against the Soviet Union, which continued to split the participants. Japan, a non-NATO member, joined other nations in pressing the Soviet Union to conclude the Intermediate Nuclear Forces negotiations or face the installation of U.S. Pershing II and cruise missiles in Europe by the end of 1983. Critics of this move charged that the prime minister allowed Japan to be a party to NATO strategy in violation of the nation's non-nuclear principles. The prime minister, however, firmly rejected these charges.

Perhaps of greater importance was the visible position of the prime minister at the meetings. In the past, the Japanese prime ministers had often been viewed as marginal participants. Prime Minister Nakasone was clearly more of a real participant, and worked to build this image in the Japanese press. International policy was his strong point, and the Summit provided a chance to overcome some of his domestic liabilities.

Trade Ministers' Meeting As if they had not already seen enough of one another, the trade ministers of the United States, Japan, Canada and the EC met in Ottawa at the end of September to consider dealing with domestic demands for protection. The theme of this quadrilateral meeting was to find specific actions that could be taken to head off protectionism. At the end, the four once again reaffirmed their determination to maintain open markets and free trade and further develop the GATT and other appropriate organizations. However, they were forced to admit that the global recession had made it difficult to stop protectionist measures.

IMF/World Bank Annual Meeting Held in Washington September 27-30, the 1983 meeting was full of hard bargaining and resulted in an eighth increase in the IMF's capital resources. The Reagan administration again opposed such a move but was eventually persuaded to compromise. Overall lending authority was increased by $11 billion, of which about half is to be provided by private banks. The increase represented a significant victory for the developing countries, but the difficult task is getting the industrial nations to actually provide the promised money.

Bank of Japan governor Maekawa used the occasion to once again tell other nations that Japan's current account surplus was rising because of the effect of high U.S. interest rates on the yen and because of the decline in crude oil prices. While lamenting the imperfections of the exchange market, he did not support a move back to fixed exchange rates and called instead for stabilization through cooperative adjustments of economic policy.

OECD Export Credit Agreement At the beginning of October, the OECD signatories of the Arrangement on Guidelines for Officially Supported Export Credits reached a new consensus on the use of export credits. Competition among the industrial nations to swing international sales to corporations of their own nationality through provision of government subsidized export financing had been a sore point for several years. Under the new agreement, the minimum allowable interest rates on government-supplied export credits were to be raised from January 1, 1984 to reflect the market rates on government bonds in leading industrial nations. Since both Japan and the United States have been major actors in the lucrative international plant construction market that depends so heavily on financing, the agreement was a positive development.

GATT Meeting One year after the ministerial conference that ended in a near impasse, contracting parties to the GATT met in Geneva November 21-23 to review implementation of the two-year working program adopted in 1982. Of top importance to many participants was a review and reform of the GATT dispute-settlement mechanism, increasingly called into use in 1983. The GATT session also discussed the application of international trading rules to trade in services. The United States strongly supported liberalization of this market and several nations, including the United States and Japan, pledged to provide studies of services trade for consideration at a meeting to be held in 1984. While Japan has increasingly been the object of U.S. pressure over its barriers to foreign entry in certain service industries, the two countries seemed to be in agreement in supporting this initiative in the GATT.

Summary The tone of international meetings had been gloomy since world economic and trade growth slowed in the 1970s. The above meetings for 1983 provided little change in this picture. At a general level, the industrial nations continued their verbal commitment to the liberal trade framework, but had to admit that protectionism was difficult to contain in a recessionary environment.

As in past years, Japan feared that its policies would become the target of criticism at some of these meetings. Thus, it was placed in a position of considering unilateral concessions to forestall criticism, a Japanese tendency that is now well known and exploited by the U.S. government. Japanese government representatives also used the occasion of the meetings to defend Japanese monetary policy and the lack of intent to keep the value of the yen low on international exchange markets.

If the international meetings of 1983 achieved any success, it was that the commitment to free trade did remain, and that the major international financial organizations were able to stave off the threat of massive default on developing country debt. Given the poor economic performance of the world over the past several years, that was no small accomplishment. But what the international trading system needed most in order to preserve the postwar liberal framework was a continuation of the economic recovery that began in 1983.

Part IV · The Japanese Economy

While the United States entered a strong rebound from recession and European countries at least tentatively began a recovery, economic growth in Japan continued to slide, at least in the first half of the year. This made 1983 the first year since 1976 in which economic growth in the United States actually outpaced that in Japan. Not only was growth disappointing, but exports continued to be the leading growth sector, with continued weak performances by most domestic sectors. This contributed to bilateral trade friction, with the slow growth in Japan putting a damper on Japanese imports.

Additionally, the government remained in a straitjacket over what it could do to provide stimulus. Despite the very low rates of inflation prevailing in the country, it was constrained in its ability to further lower interest rates through a more expansionary monetary policy. It was feared that such a policy would only result in a depreciation of the yen against the dollar, exacerbating the already tense international scene. Fiscal policy was also constrained by the firm commitment to a reduction in the size of the government deficit. This does not mean that fiscal policy was tight, since the government continued to run a large deficit, but that the direction of policy was toward greater restraint rather than greater stimulus. In this environment the government could only sit by and hope that the growth of exports would spill over into a broader rebound of the economy. While there were some signs of this by the end of the year, they were still uncertain.

In the midst of these economic dilemmas, the Liberal Democratic Party (LDP), the majority party in Japan, came close to losing control of the Diet in the December elections. This was a serious blow to Prime Minister Yasuhiro Nakasone and may have weakened his ability to take a leadership role on some issues. However, for 1983 the main impact was to create a lull in pressure from the United States in advance of the election. Feeling that Nakasone was more favorably disposed toward the United States than other LDP leaders, U.S. government officials did not want to be responsible for driving him out of office.

Until the lull came in the fall, though, Japan continued to be under pressure from its trading partners, offering further packages of unilateral market liberalization measures. It also faced problems of new restrictions on its exports to markets such as the European Community (EC).

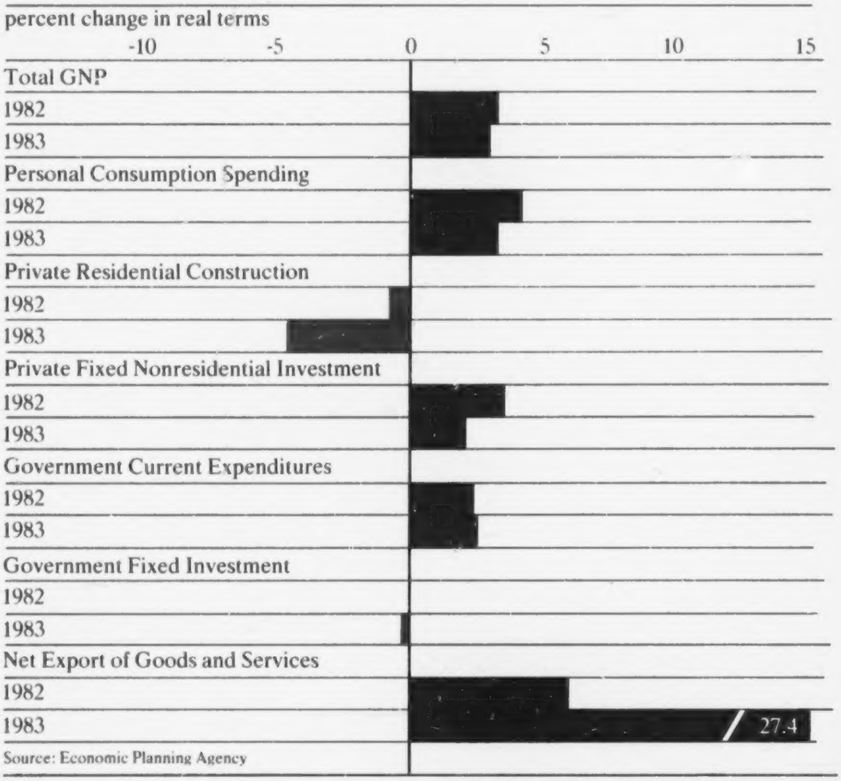
Economic Overview

Japan still turned in one of the best performances among the members of the Organization for Economic Cooperation and Development (OECD), but it was little consolation. The following sections consider Gross National Product (GNP) growth, detailing the general developments outlined above. If there was any bright spot, it was the low rate of inflation prevailing during the year. But it was little consolation since the government could not respond by following more expansionary monetary and fiscal policies.

GNP Growth

Preliminary statistics show Japan's real (inflation-adjusted) GNP growing at a 3 percent rate in 1983, down from 3.3 percent in 1982. In fact, the rate of growth has been continuously slowing since 1979, when it was a high 5.2 percent. As the 1980s began, Japan prided itself on the economy's coming through the second oil shock with higher growth and lower inflation than other industrial nations, but that optimism began waning as growth continued to weaken. Performance is still relatively strong, but it remained below expectations

Japan's GNP by Sector



Source: Economic Planning Agency

and domestic sectors contributed relatively little.

As the year began, the OECD was predicting that Japan's GNP would grow about 3.5 percent, and the official Japanese government forecast issued by the Economic Planning Agency (EPA) was 3.4 percent for fiscal 1983 (April 1983-March 1984). These forecasts were much more realistic than in previous years, although the final performance was lower than the OECD had expected. Japan could actually achieve the EPA forecast for the fiscal year if growth in the first quarter of 1984 is high enough.

While the overall level of growth for the year was closer to expectations than in the past, the pattern of growth was not. The Japanese government had been hoping for a revival of expansion of private domestic sectors, and the EPA forecast predicted a 3.9 percent growth in real consumption spending, a 2.6 percent growth in private residential housing construction, and a growth of 2.9 percent for private nonresidential fixed investment. While these forecasts were for the fiscal year rather than the calendar year, the sectoral data presented below indicate that they were overly optimistic.

The EPA was even farther off the mark with its expectation that the current account in the balance of payments would show a $9 billion surplus. As discussed later, the actual figure came to $21 billion, a new record. The result for the year, then, was that actual growth was much more highly dependent on the external sector, a development that the Japanese government was uneasy about, but was unable or unwilling to alter.

Over the course of the year, GNP growth again proved to be quite uneven, and a main cause of the variation was fiscal policy. With public works expenditures heavily loaded into the first half of the fiscal year (April-September), growth was higher in the second and third quarters (calendar year) than in the first or last. In the January-March quarter, growth was at an annualized rate of only 0.7 percent, jumping to 4.5 percent in the second quarter and a high 6.2 percent in the July-September quarter. However, growth then slipped to 3.1 percent in the October-December quarter. This has been a common pattern for the past several years, because of front-loading government expenditures in the fiscal year.

Japan now seems to be getting used to lower growth rates. In January 1983, the Economic Council, an advisory body to the government, proposed a 3 to 4 percent real GNP growth rate for the five-year forecast to FY 1987. This was finalized in August when the Cabinet approved a new eight-year economic plan (running from FY 1983 through FY 1990) that predicted a 4 percent real GNP growth rate. This seemed reasonable, although if the weakness in the domestic sectors continues, the goals could prove to be unattainable.

Personal Consumption Spending Personal consumption spending is by far the largest sector of GNP, accounting for close to 50 percent of the entire economy. Therefore, overall growth is greatly influenced by consumer spending trends. For 1983, a modest revival was expected but it failed to materialize. At 3.3 percent, the real growth in consumer spending was slightly above the average overall GNP growth, but this rate was lower than in 1982 (4.2 percent) and showed no clear trend of improving as the year progressed.

One of the factors in generating the low increase in consumption spending was low wage increases for the year. During the spring wage offensive (*Shunto*), wage settlements came in with increases of around 4 percent. The union federations had begun by calling for 7 percent increases, but management had started from a tough position of a zero proposed increase, citing poor profits and continued sluggish growth. For some industries, the settlements amounted to the lowest rate of increase in the entire postwar period.

With the low wage settlements in the spring, the government's statistics on annual family income show the income of all worker households rising by only 3.2 percent for the year. Regular wage income was up by close to 4 percent, but temporary and bonus income increased a small 1.2 percent, helping to hold down the total increase in family income. With the continued slow growth in the economy, overtime hours did not increase, nor did corporate profits expand enough to fuel a rise in bonuses.

Not only were these increases modest, but the lack of a tax cut meant that disposable (after tax) income for worker households increased only 2.6 percent. Since these wage and income figures are in nominal terms, even the very low rate of consumer price inflation for the year (1.9 percent) meant that the real increase in disposable income was extremely limited—only 0.7 percent. This was far below the 3 percent increase in real disposable income in 1982. Only by reducing the portion of disposable income going to savings were consumers able to generate even the modest increase in consumption spending indicated in the national income data.

Since the ratio of personal savings to personal disposable income has been extraordinarily high in Japan, a drop in the propensity to save could fuel a considerable expansion of consumer spending. Nevertheless, the motives for saving seemed relatively unchanged, leaving room for only a modest reduction in saving during the year.

Private Residential Construction The real value of private residential construction displayed an absolute drop of 4.7 percent in 1983, considerably worse than the drop of 0.8 percent in 1982. However, some progress was apparent over the course of the year. Always a volatile item, housing showed declines at annualized rates of 13.4 percent and 41.9 percent in the first two quarters of 1983, followed by large increases of 14.4 percent and 24.6 percent in the last two quarters.

Reflecting the drop in spending in the national income accounts, housing construction starts declined by 0.8 percent during the year, again larger than the 0.5 percent drop in 1982. However, the fact that spending dropped more than starts suggests that the private sector was building smaller residential units, a view confirmed by a larger contraction in floor area of new construction than in the number of starts. One reason for the decrease in average floor area per unit was the rise in the proportion of rental housing in total construction activity. With the low wage increases preventing more people from buying their own home, the proportion of total housing starts accounted for by rental units rose from 22 percent in December 1982 to 32 percent in December 1983. This stands as strong evidence of the sluggishness of the Japanese economy, especially considering that the baby boom generation ought to be swelling the ranks of first-time home owners.

Housing investment is also affected by the availability of financing. This in turn is affected by the amount of credit supplied by the government-owned Housing Loan Corp. Its new loans for 1983 showed a marginal increase of 1 percent for the year though this was deceptive because the quarterly figures show a drop, so that new loans in the final quarter of 1983 were 10.3 percent below the corresponding quarter of the previous year. Since the Housing Loan Corp. provides about one-third of all mortgage credit in Japan, its role in stimulating or restraining housing construction is very significant.

Private Nonresidential Investment High and increasing investment in productive plant and equipment had been the mainspring of Japanese economic growth in the 1950s and 1960s. For 1983, private nonresidential fixed investment grew at a real rate of only 2.0 percent, below the 3.5 percent increase of 1982. However, there was some room for optimism over domestic expansion since the quarterly trend was upward. After a real drop in investment at an annualized rate of 0.6 percent in the first quarter, the April-June quarter turned in a 3.8 percent annualized increase, followed by larger increases of 7 percent in the third quarter and 7.8 percent in the fourth quarter. This was being interpreted in Japan as a strong sign that domestic recovery was coming. Since domestic private and government consumption had been so sluggish, the upturn in business investment seemed to be largely a result of the rise in exports.

One reason for the upturn in fixed investment was a rise in the manufacturing operating rate—a statistical measure somewhat analogous to the capacity utilization index in the United States—by 1.6 percent in 1983. This measure had declined in the previous two years, and was still declining at the beginning of 1983. By the end of the year, however, it was rising sharply.

Change in Inventories This item in the national income accounts is always a very volatile, but nevertheless important, indicator of economic activity. In 1983 inventory accumulation continued to decelerate sharply, with net inventory accumulation falling 69.3 percent from the previous year, compared to a drop of 1.6 percent in 1982. Japanese analysts had been waiting for a long time to see inventories bottom out—representing the end of unwanted, excess inventory stocks—after which industrial production could be expected to rise more rapidly. There was some indication that this occurred after the first quarter of 1983; while the quarterly pattern of inventory changes jumps around, the increases were much larger in the remaining three quarters.

Reflecting the wringing out of excess inventories, industrial production showed a modest increase for the year. The industrial production index rose 3.6 percent, compared to a minuscule 0.3 percent in 1982. Thus, the turning point in inventories and its effect on industrial production was another piece of welcome news for the economy, although the overall picture for the year does not reflect this change.

Government Government spending in the Japanese national income accounts is divided into current expenditures and fixed investment. Neither category provided much stimulus for the economy, reflecting a pattern that was virtually identical to the previous year. Current expenditures rose 2.4 percent in real terms for the year, compared to 2.3 percent in 1982. The changes over the course of the year were fairly steady, except for a larger growth at a 4.6 percent annualized rate in the July-September quarter.

Fixed investment expenditures, on the other hand, showed a real drop of 0.2 percent, compared to a 0 percent record in the previous year. The trend clearly shows the impact of loading public works expenditures into the first half of the fiscal year. The January-March quarter, the final quarter of the previous fiscal year, showed a real drop of government fixed investment at an 11.1 percent annualized rate, reflecting the fact that expenditures had been front-loaded in FY 1982 as well, leaving little to be spent by the final quarter. The April-June quarter, the start of the new fiscal year, brought a jump at an annualized rate of 21.6 percent in expenditures, followed by a smaller 3.5 percent increase in July-September. September brought the end of the first half of FY 1983, so the October-December quarter shows a real drop at a 12.3 percent annualized rate.

The front loading of government investment expenditures had two motivations. First, there was some hope that a supplementary budget would be passed in the fall, increasing public works expenditures for the second half of the year. This did not materialize. Second, it was a way of juggling expenditures to give the appearance of carrying out a more expansive fiscal policy. However, the private sector was not fooled. Further detail on government fiscal policy is provided later in this chapter.

External Sector Since the net external sector is the first difference between the changes in exports and imports of goods and services, it can be rather volatile. Given that fact, the 27.4 percent real growth registered in 1983 was rapid but not extremely high, since it has been known to change by as much as several hundred percent in a single year (over 600 percent in 1980, for example). Nevertheless, it was the most rapidly growing sector for the year, and increased at a much higher rate than the 3.5 percent registered in 1982. That meant that out of the 3 percent overall real GNP growth for the year, the net external sector accounted for 1.5 percentage points, half of the registered growth. This was far above Japanese expectations.

The growth in net exports was the result of a rather modest 4.8 percent growth in exports of goods and services and a 4.7 percent drop in imports of goods and services. The import drop was due to the combination of the falling value of oil imports, the sluggishness of the Japanese economy and the uncompetitive prices of foreign products because of the exchange rate. It is perhaps surprising that exports did not grow more rapidly. Keep in mind that exports and imports can be measured in a variety of ways, and the data in the national income accounts, only one of the three, is the most rarely used. The balance-of-payments data and the customs clearance data are discussed later in this section.

Inflation

The brightest piece of news for Japan in 1983 was probably the very low rate of inflation that prevailed for the year. Wholesale prices actually declined by 2.2 percent, while consumer prices increased by only 1.9 percent. Ever since the very high inflation rates of 1973-1974, the Ministry of Finance has been very concerned about inflation and saw to it that after the 1979 oil shock inflation would not be allowed to spiral upward. Therefore, Japan came through the post-1979 period with the best inflation record among OECD nations, and that continued in 1983.

Wholesale prices can be influenced by the change in import prices, since imports have a 12.4 percent weight in the total index. In 1983 import prices declined by 7.8 percent. This reflected the fact that the average value of the yen for the year was higher in 1983 than in 1982, due to the yen's rapid appreciation late in 1982 to the plateau at which it remained during 1983. This appreciation of the yen meant that the yen price of imports dropped. In addition, the price of energy imports (petroleum, coal and natural gas) dropped by almost 12 percent.

However, the decline in overall wholesale prices was not due solely to the falling price of imports. Wholesale prices of domestic products dropped by 0.7 percent. The falling price of imported raw materials was certainly one factor in this development, as was the sluggishness of domestic demand in Japan. For example, given the sluggishness of investment demand, the price of both nonelectrical and electrical machinery decreased (by 1.6 percent and 3.1 percent, respectively).

In addition, the index for export prices also declined, by 6 percent. With export prices declining, the appreciation of the yen late in 1982 had little impact on the price competitiveness of Japanese products in 1983. The fact that export prices fell more than domestic prices also suggests that companies were paring back their export prices in order to maintain market share, given the somewhat stronger value of the yen. The one exception would be automobiles, where the voluntary export restraints have given the Japanese a market for their cars in the United States that was less than demand, causing the retail price of Japanese automobiles to rise. However, even here, the index for transport equipment export prices showed a dip of 0.7 percent.

With wholesale prices dropping, consumer prices in Japan were also very steady, with the 1.9 percent increase for the year the best performance among OECD countries. This again indicates the slackness of demand in Japan. Given the very low wage increases in the spring of 1983 (discussed above), wage costs did not push up prices, nor would higher prices have held with incomes rising so little. One would expect that under such low inflation conditions, the government would be willing to pursue more expansionary monetary and fiscal policies. But, as detailed in the following section, that was not so.

Among items in the consumer price index, the most rapidly rising prices were for education (up 4.9 percent) and housing (up 3 percent). While even these were not large increases, the fact that housing continued to rise in price faster than most other prices is one explanation for the decline in investment in new housing. Because people have felt that the cost of owning a home has outpaced their income, they have stayed in apartments. And, as explained above, the construction cost of an apartment housing unit is lower than that of an individual home.

Monetary Policy

With inflation running at very low levels and economic growth weaker than in the previous year, a further easing of monetary policy to stimulate investment and durable goods consumption might have been logical. In fact, the Bank of Japan (BOJ) discount rate was lowered in October, but this was the only move made during the year. Behind the reluctance to provide greater monetary stimulus lay the fear of encouraging further capital outflow, which would weaken the yen. This, in turn, would increase Japanese export price competitiveness and thereby worsen international trade tensions.

One way of looking at the direct outcome of monetary policy is to measure the growth of money supply. For a variety of reasons, the Japanese monetary authorities generally can keep money supply growth closer to the desired targets than can the Federal Reserve System in the United States (because of policies such as "window guidance," which is administrative guidance on the amount of commercial bank lending). All measures of money supply show lower growth in 1983 than in 1982. Using year-end comparisons, the increase in modified M1 plus CDs (certificates of deposit) grew 6.4 percent in 1983, compared to 7.8 percent in 1982. Similarly, M2 plus CD grew at 7.3 percent, compared to 7.9 percent in 1982. Thus, this indicator shows that, if anything, there was less monetary stimulus in 1983 than in the previous year.

Under more direct control than the quantity of money are interest rates. A major tool of monetary policy in Japan is the BOJ discount rate, analogous to the Federal Reserve discount rate in the United States. The discount rate had last been lowered in December 1981, and all during 1982 there had been repeated calls for further cuts. In the spring of 1983, these calls were renewed as the government discussed what could be done to stimulate the economy. In fact, in the absence of a more stimulative policy, the government was forced to raise the issue rate of interest on its March offering of government bonds. (Interest rates on these bonds are set through negotiations with the syndicate of financial institutions that buy them rather than through an auction market.)

Some interest rates were cut in the absence of a discount rate drop, although not by large amounts. In January, the long-term prime rate was dropped by 0.2 percentage point (from 8.6 percent to 8.2 percent). While this is a decision made by the long-term credit banks, they are heavily influenced by government guidance. However, most market-determined interest rates showed little movement. The interest rate on 10-year government bonds in the resale market (i.e., excluding those newly issued at negotiated interest rates to the syndicate) showed very little variation until late in the year, hovering just under 7.9 percent. The *gensaki* and call rates, two principal short-term financial instruments, also showed little change.

By September, pressure for some change was building again. In August, Prime Minister Nakasone ordered that a package of measures to expand domestic demand be put together, including some measures to stimulate imports. The monetary policy component of this package was a cut in the BOJ discount rate. The monetary authorities were finally able to relent on this point because the yen rose somewhat against the dollar in September (from approximately ¥246 to ¥236) and somewhat further in October (to ¥232). Based on this modest show of strength in the yen, the BOJ was willing to include a 0.5 percentage point discount rate cut (to 5.0 percent) in the October 21 economic package announcement, going into effect the following day.

Following the cut in the discount rate, long-term credit banks, trust companies and insurance firms cut the long-term prime lending rate again by 0.2 percentage point (to 8.2 percent) on October 28. This was followed by cuts in some other lending rates, including the Japan Development Bank, the People's Finance Corp. (which lends to small business) and the Small Business Finance Corp. The short-term lending rate at commercial banks, the principal private sector bank interest rate indicator, was cut by 0.5 percentage point on November 11. However, as is usually the case, a struggle developed between the Ministry of Finance and the Ministry of Posts and Telecommunications over lowering interest rates on postal savings accounts. This dispute was not resolved until January 1984, when savings deposits rates were cut by 0.25 percentage point.

Overall, the discount rate did have at least some effect on bringing down other interest rates. Market rates on 10-year government bonds dropped modestly, for example. However, the effect was limited, as many market-determined short-term interest rates, such as the *gensaki* rates or the call rate, showed no definite downward trend.

Since the drop in interest rates was small, it seems to have had a very limited impact on the economy. On the other hand, by widening the disparity between Japanese and U.S. interest rates, it may have contributed to capital outflow. The value of the yen on foreign exchange markets did not weaken, but neither did it continue the upward drift against the dollar that had begun in September and October. In all, the impact of monetary policy on the economy during the year was marginal at best.

Fiscal Policy

With monetary policy constrained by fears of causing the yen to weaken and with the move finally taken in October probably too marginal to have much impact, the burden of stimulating the economy rested with fiscal policy. Here, too, powerful constraints were at work. During 1983, the Ministry of Finance continued to be motivated by the overwhelming desire to cut the size of the government deficit. This was reflected in the FY 1983 budget that was submitted to the Diet early in the year, the process of developing the FY 1984 budget later in the year, the continued work of the administrative reform committee, and the so-called economic stimulus package announced in October.

FY 1983 Budget The central government budget for the fiscal year starting April 1983 was approved by the Diet on April 4. The new budget contained only a 1.4 percent increase in discretionary general account expenditures, demonstrating the firm determination to hold down government spending as part of the effort to reduce deficits. However, more recent statistical data show an anticipated 6.9 percent increase in total general account expenditures for FY 1983, mainly because of rapidly rising debt service costs plus a transfer of funds to close out the books on FY 1981. Debt service costs, for example, rose 18.6 percent.

Among discretionary expenditures, very few items were allowed to increase. Social welfare and pension expenditures were held to a zero increase. Education, science and culture dropped 0.3 percent, revenue sharing with local governments was down 3.8 percent, public works spending was cut 8.5 percent, and the foodstuff control fund (providing the subsidies to farmers and usually subject to very strong political pressure) was cut 9.2 percent.

The only areas allowed substantial increases were defense (up 7.3 percent), foreign aid (up 6.2 percent) and energy (up 6.9 percent). These exceptions were made for a variety of domestic and international reasons. Prime Minister Nakasone favored a stronger defense posture, and was therefore willing to accede to foreign pressures. Foreign aid was similarly subject to international pressure and Japan's commitment to substantially increase its effort. Energy spending continued out of the fear of future energy supply disruptions.

Even with these efforts to hold down spending, the expectation was for 26.5 percent of total spending to be deficit financed. While this was down from the 30 percent level anticipated for FY 1982, it remained above the earlier hopes of the Finance Ministry. At the time when the budget was originally passed, it was thought that the 26.5 percent level of deficit support would be worse than in FY 1982, but later tax revenues fell below expectations, raising the deficit financing percentage for FY 1982 and making the new budget look somewhat better by comparison. Keep in mind that all budgeted figures for expenditures and revenues are only forecasts and can vary from the revised figures released later in the year or from the final figures once the books are closed. This all leads to some discrepancy between announcements over time.

No sooner had the budget been passed than the Cabinet economic ministers agreed to a "stimulus" package for the economy. Under this package, adopted in April, 70 percent of the budgeted public works expenditures were to be spent in the first half of the fiscal year (April-September). This would be stimulative only if the Diet were willing to pass a supplementary budget in the fall, for otherwise the added push would be negated by a large drop in public works spending in the second half of the fiscal year. This is discussed further under the economic stimulus package below. A second feature of the package was to promote additional housing investment through increased commercial bank credit and additional funds for the Housing Loan Corp. As was discussed above in the analysis of national income data on housing investment, this did not materialize.

In short, neither the FY 1983 budget nor the immediate announcement of a stimulative package could counter the fact that the budget would provide very little additional stimulus to the economy. This statement needs some qualification. In the sense that a large portion of government spending remained deficit financed, the budget was stimulative. However, relative to the previous year, there was little additional stimulus. Furthermore, the government deficit should be seen in light of the overall balance of savings and investment in the economy. With the large surplus of private sector savings over private sector investment, the government must run a considerable deficit to absorb the difference. The government's actions in 1983 were insufficient to do so, with the rise in the current-account surplus and capital outflow reflecting the difference. In that sense the government budget was not stimulative.

FY 1984 Budget Process Even before the FY 1983 budget was approved, the Ministry of Finance was shaping the development of future budgets. In February it released a revised medium-term fiscal outlook (to FY 1986) that offered three options: a reduction of new bond issues every year of one-third, one-fifth and one-seventh. The object was to indicate what the limits would have to be on government spending if the deficits were to be reduced (and given certain assumptions about the growth of tax revenues). The report showed the necessity of continued cuts in spending or increases in taxes to achieve even the lesser goal of reducing the amount of deficit spending by one-seventh each year.

Not long thereafter, the Ministry of Finance began to consider the budget for FY 1984. In May it was clear that the commitment to eliminating the deficit would continue, although the magical year in which the budget would be balanced was pushed back to FY 1990, with a planned ¥1 trillion ($4.2 billion) reduction in new bond issues each year until that point, a weaker goal than in the medium-term outlook released back in February. The Ministry of Finance also announced in May that it would call for a "minus ceiling" on budget requests, repeating the procedure followed in the FY 1983 budget, in order to allocate available financial resources to foreign aid and defense programs.

By summer, the effort to reduce government deficits was being complicated by stronger demands for an income tax cut. The LDP had decided it was necessary to join with the opposition parties in supporting a tax cut. However, the tax advisory council attached to the Ministry of Finance was not very receptive to the idea. Despite the opposition of the bureaucracy, though, political pressure was building to accept some form of tax cut.

Faced with the political probability of a tax cut, the Ministry of Finance continued to exercise great pressure on other ministries to limit their budget requests, due at the beginning of September. In July the ministry announced that all budget requests (for non-personnel discretionary spending) from ministries and agencies should be 10 percent lower than in the existing budget, except defense, foreign aid, mandated personnel and pension payments, and spending on alternative energy programs. As a result of the pressure, the requests submitted in September indicated an increase in total planned spending on areas other than debt service and revenue sharing of only 1 percent.

Starting from this rather stringent draft, negotiations on budgets continued between the Ministry of Finance and other branches of the government through the fall. The draft of the budget is normally ready for approval by the Cabinet by the end of December. However, the lower house Diet election in December upset that timetable when the substantial losses of the Liberal Democratic Party caused a reshuffle of the cabinet ministers and occupied the party's attention for the rest of the month. The draft was not finally approved until January 25. It contained only a 0.5 percent increase in total general account expenditures. Late in December, the Ministry of Finance had tried to bring the increase down even further by trying to limit the increase in defense spending, but this effort failed in the face of strong political pressure. In total, though, the atmosphere of austerity increased and was fully represented in the new budget as it was put together.

Administrative Reform An important feature of the fiscal policy process in Japan in the 1980s was the emergence of the administrative reform movement, calling for more efficiency in government. The moving force behind the movement was the Commission on Administrative Reform, formed in 1980 and headed by Mr. Toshiwo Doko, the elder statesman of Keidanren (the Federation of Economic Organizations). In 1983, the commission issued its final report to the prime minister and disbanded.

In the final report, the commission recommended that the government reorganize and review existing administrative systems in order to reduce expenditures, calling for an elimination of government deficits without any major tax increases. It also called on the government to hold the level of expenditures below the economic growth rate by establishing a ceiling on budget requests. More specifically, the report proposed a 10 percent cutback in the number of sections in all ministries and agencies and recommended the establishment of a private-sector advisory panel aimed at coordinating policy. Another major recommendation was to convert the three major government-owned corporations—the Japanese National Railways (JNR), the Nippon Telegraph and Telephone Public Corp. (NTT) and the Japan Tobacco and Salt Public Corp. (JTS)—to private management. The concentration of personal savings in the postal savings system was also to be reexamined.

Prime Minister Nakasone promised that the LDP would support the proposals, but many of the recommendations would be politically unpalatable and faced an uncertain fate at best. However, work began on legislation that was ultimately submitted in 1984 to privatize NTT and JTS. Of greater significance than whether specific proposals were actually enacted, though, was the impact of the commission on general attitudes. Generally the private business sector in Japan has been in favor of more expansionary economic policies. Through the rubric of the administrative reform movement this stance was reversed, with the business sector (or at least certain parts of business) fully supporting the tight controls on government spending, which aided the Ministry of Finance in carrying out its policies. The only matter of contention between the private sector and the government was whether increased taxes should be used to reduce deficits.

Economic Stimulus Package In June the former head of the Economic Planning Agency (EPA), Isamu Miyazawa, was appointed head of an interagency panel to look for ways to stimulate the economy without causing inflation or widening the deficit. Originally intended to be finalized in September, the recommendations were not ready until October because of dissension among ministries on appropriate policies. The Ministry of International Trade and Industry (MITI), for example, marshaled its forces to press for fiscal and monetary measures to stimulate a strong recovery, making proposals that were opposed by the more conservative Ministry of Finance. MITI pressed for investment tax credits, an expansion of residential construction, accelerated government public works spending and other measures.

On October 21 the package of stimulus measures was finally released, coming close to the time of President Reagan's trip to Tokyo. With that trip approaching, the package included both measures to stimulate domestic demand and international trade concessions.

Promotion of domestic growth was to be attained through a ¥1.9 trillion ($8.1 billion) spending program for disaster relief and an infusion of additional funds from the Housing Loan Corp. and the Japan Highway Public Corp. This fiscal stimulus was to be strengthened by an income-tax reduction and additional loans to private industry by the Japan Development Bank. The government was also to support expanded investment by electric power utilities. On the side of monetary policy the package included the cut in the BOJ discount rate considered above. Absent from the package, however, was the investment tax credit desired by MITI but opposed by the Ministry of Finance.

On the international side, the announcement included a number of measures to improve the lagging pace of imports. These are considered later under Japan's international economic policy.

The announcement was mute on the question of where the funds would come from to finance the increase in spending. In the previous year, a similar exercise had merely shifted money from one account to another without increasing total spending at all. In any case, the national income statistics suggest that the package did not stop the net impact of the government on economic growth in the final quarter of the year from being negative, with a 12 percent real drop (at an annualized rate) in government fixed investment spending.

At the same time that the government was announcing some increased spending, the fight over taxes was continuing. A government advisory council had been considering an income tax cut since April, taking a conservative view that any cuts in FY 1983 would have to be balanced against the budget deficit and that no general tax reform bill should be enacted until FY 1984.

The LDP endorsed the idea of a tax cut of ¥150 billion in FY 1983 and ¥1,060 billion in FY 1984. However, its proposal was blocked in the Diet in the fall by an opposition party decision to reject all legislative initiatives until former Prime Minister Kakuei Tanaka should resign his Diet seat. The stalemate was resolved in time for the LDP to get its tax proposal passed before the Diet was dissolved for elections (see following section on political developments).

The net impact of the modest increase in spending contained in the October 21 announcement and the tax cut was some fiscal stimulus for the economy, though the changes came too late in the year to show effects in 1983 statistics. The changes also meant that the goal of reducing government deficits was set back once again. But from the standpoint of macroeconomic savings and investment flows discussed above, this was a correct policy to follow. However, these rather small changes did not deter the Ministry of Finance from continuing with its plans for the extremely austere spending in its proposed FY 1984 budget.

The overall impact of the tax cuts passed by the Diet was also imperiled by recommendations from the government's advisory tax council to introduce a variety of indirect taxes to increase government revenues. Based on the council's suggestions, the government's plans included: increasing the tax rate on passenger cars from 17.5 percent to 20 percent; imposing commodity taxes of 15 percent on new products such as compact discs and video disc players; imposing additional taxes on liquor; and reducing tax benefits on retirement allowance reserves.

The net implication of all these developments on fiscal policy in 1983 indicated little change in basic policy stance. Despite the modest amount of stimulation implied by the measures taken in the fall, the emphasis was still much more on reducing government deficits than on stimulating domestic demand.

Political Developments

The year was busy and complex in terms of political developments, with a heavy schedule of elections punctuated by the completion of the long-running trial of former Prime Minister Tanaka. In fact, the year brought four separate elections: local and gubernatorial elections in the spring, mayoral and city council elections in the spring, upper house elections for the Diet in the summer and lower house elections at the end of the year. All of these developments had an impact on economic policy in Japan and the course of bilateral economic relations.

Local Elections

On April 10 the local elections took place and provided a mixed outcome. Thirteen governorships and legislative bodies in 44 prefectures were on the ballots. The elections were the first since the prime minister took office in November 1982.

The LDP strategy was based on winning enough races to override any criticism of the Nakasone leadership, and in the process, generate enough support for the forthcoming national elections to consolidate its power. The opposition parties, on the other hand, hoped to highlight criticism of the LDP's intention to proceed with a defense buildup and blame it for the sluggish economy. The results were that in many gubernatorial races both conservatives and opposition parties could legitimately claim victory since many candidates ran with the endorsement of both sides. These candidates persuaded the supporting parties not to stress national, ideological issues, so that the contests were not really a test of Nakasone's popularity.

Among the gubernatorial elections, three were considered of primary importance. In Hokkaido the LDP lost to the Socialist Party for the first time in 26 years. In Tokyo, on the other hand, the LDP candidate easily won over a Socialist and Communist party candidate who had ignored local issues in favor of criticism of the Nakasone government position on defense. In Fukuoka, the LDP lost again, largely over the issue of misuse of public funds by the incumbent. The LDP was shocked at the two losses, and some party leaders tried to place the blame on Prime Minister Nakasone's stand on defense issues.

In the prefectural assembly elections, though, the LDP won 1,415 seats out of the total 2,460 that were up for election. The Socialist Party was far behind with 339 seats, followed by the Komeito with 140 seats, the Democratic Socialist Party with 92 seats and the Communist Party with 67 seats. This increased overall LDP strength at the prefectural assembly level by 80 seats.

While the opposition parties tried to take the election outcomes as a repudiation of the prime minister, a closer look at individual races showed that the local elections were fought and won mainly on local issues and effective campaign strategies. It was also clear, though, that the LDP came out of the elections less certain of the voters. Up to this point, there had been some support within the LDP for holding a simultaneous election for the upper and lower houses of the Diet later in the year, but the local election outcomes brought stiffer opposition to that idea.

Mayoral Elections

In a second election held on April 24 to elect mayors and local city council members, the conservative trend was stronger. One-third of the incumbents were re-elected without opposition. Where there was a contest, candidates endorsed jointly by the LDP and the moderate opposition parties won easily. In the 145 city mayoral elections, the strongest political coalition turned out to be the LDP, Komeito and the Democratic Socialist Party. All 21 candidates endorsed by that alliance won. All the candidates backed by the LDP, Komeito, the New Liberal Club and the Social Citizens' Alliance also won. The LDP-Komeito endorsement won nine out of eleven races, the LDP-Democratic Socialist coalition took six of nine races, and three candidates backed by the LDP, Democratic Socialists and the New Liberal Club also won—a total of fifty victories and five losses for the conservative/moderate alliance. The same conservative preference overwhelmingly favored those candidates supported by moderates and socialists, while candidates endorsed solely or jointly by either the Socialist Party or the Communist Party faced disaster. The Socialist Party won only four elections out of the 12 candidates it fielded; all 30 communist-backed candidates were defeated.

Participation in the April 24 elections was less than 70 percent, and all indications suggested that voters found most of the races dull. Attempts to rouse the voters to the controversial defense and foreign policy decisions taken by the prime minister were buried under debates on administrative skill and experience in office for the the offices in question.

Upper House Election

This was the first national test of the Nakasone government and was held on June 26. There had been considerable talk of holding a combined upper-lower house election, as had been done in the previous election. Former Prime Minister Tanaka was in support of the double election idea, but Mr. Nakasone announced that he had no intention of following this strategy.

The upper house of the Diet, with 252 seats, is half the size of the politically powerful lower house. Members hold office for six years, with half of the members up for election every three years. The chamber is divided into local and national districts, with the national seats apportioned under a complicated formula by the percentage of the total popular vote garnered by each party.

When the election took place, Prime Minister Nakasone won a ringing endorsement from the voters. The LDP increased its majority by winning 68 of the 126 seats that were up for election, giving it a total of 137 of the 252 seats. However, the voter turnout was a low 57 percent, perhaps because this was the third election within a short period of time.

In the wake of the upper house election, a decision remained to be made on when the lower house election would be held. It had to take place by the spring of 1984, but some thought was being given to holding it before 1983 ended. This decision depended partly on the outcome of the Tanaka trial in October and the expected visit from President Reagan in November. As events turned out, the election was scheduled for December.

The Tanaka Verdict

Former Prime Minister Tanaka and four other defendants in the Lockheed trial were found guilty by the Tokyo District Court in a decision handed down October 12. Mr. Tanaka, charged with receiving bribes from Lockheed Corp. to influence All Nippon Airways' (ANA) decision to purchase the Lockheed airbus, was sentenced to four years in prison without probation and fined ¥500 million ($2.1 million). All the defendants appealed immediately and Mr. Tanaka was released on bond after a few hours.

The furor over the trial meant political trouble for the LDP. Polls taken before the verdict showed the overwhelming majority of those polled were convinced that he was guilty and said that if the verdict supported the charges against him, he should resign his Diet seat. However, Mr. Tanaka refused to do this and vowed to continue the appeal up to the Supreme Court. This brought rising criticism in the press, and the opposition parties stopped attending the Diet sessions and refused to consider any other legislation before this matter was resolved.

Prime Minister Nakasone moved slowly to deal with the Tanaka problem. He did not meet with the convicted former prime minister until October 28, and the outcome of that meeting was not a resignation. However, the LDP moved to placate the opposition parties and bring them back to carry on with the legislative work of the Diet. Mr. Nakasone promised to establish a review process that would step up the government's supervision of ethical conduct by requiring Cabinet members and parliamentary vice ministers to disclose their financial status. Also included was the establishment of a joint Diet council on ethical conduct. This course of action was successful in breaking the Diet impasse and the opposition parties returned.

The impact of the trial in the short run was to delay consideration of important legislation, including the tax cut. However, the delay was relatively short. In the longer run, there was the danger that the Tanaka image would tarnish the LDP generally, hurting its candidates in the upcoming election. In fact, the election did not seem to hinge on an anti-Tanaka reaction, as discussed below.

Lower House Election

Prime Minister Nakasone finally made his decision on the elections, dissolving the Diet on November 28 and calling for a general election for the lower house of the Diet on December 18. While the prime minister would have preferred to hold the election in 1984, at which time other issues would have take precedence over the Tanaka issue, pressure from both the opposition parties and the LDP made this option impossible. The opposition parties were determined to make the Tanaka issue a focus of the campaign and threatened to continue blocking legislation unless the LDP agreed to call for elections. The Tanaka faction, the largest and most powerful in the LDP, also pressed for this decision, which the faction hoped would cleanse the former prime minister of guilt—at least in the eyes of his constituency. The Tanaka faction was also determined to maintain its power nationwide and had been working vigorously to promote its candidates in other districts. The LDP, for its part, wanted to counter the Tanaka issue by emphasizing the importance of domestic and foreign policies. Prime Minister Nakasone intended to campaign on his foreign policy record, his support for government administrative reform and the tax cut.

The LDP was going into the election with a comfortable majority in the Diet, resulting from the election of 1980 in which sympathy over Prime Minister Ohira's death was a factor. Everyone expected that the LDP would lose some seats this time, but there was no consensus on how big the loss would be.

This election also brought an unusually large number of candidates running for the 511 available seats. The LDP itself had an overabundance of candidates, and with multiple-seat districts, there appeared to be too many competing against one another within districts, risking a loss of more seats than was expected.

The political vacuum induced by the dissolution of the Diet and the election campaign also meant that government policy decisions were postponed. The most important of the issues affected was the final preparation of the government budget for FY 1984, which should have gone to the Cabinet for approval late in December. This became impossible. Bilateral issues could not be dealt with either, and the United States cooperated by not applying any pressure during this period.

When the election finally took place, the result was a stunning blow for the LDP. The party won fewer seats than even the pessimists had predicted, forcing changes in the Nakasone Cabinet and adjustments in the prime minister's strategy for retaining political power beyond the expiration of his term as LDP party president late in 1984.

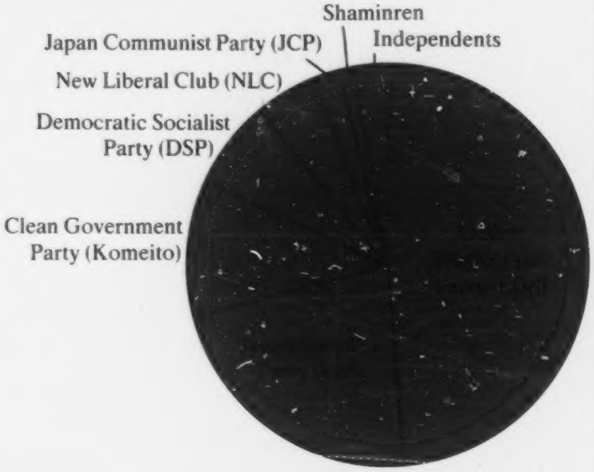
The LDP won only 250 seats, 36 fewer than it won in 1980, in an election in which a low 68 percent of the voters turned out to cast ballots. The Komeito picked up 25 seats while other opposition parties gained fewer than ten seats each. The details are presented in Appendix A of this yearbook.

Technically the LDP had less than a majority after the election, forcing it to establish an alliance with the New Liberal Club, a small party consisting of politicians who had bolted from the LDP several years earlier. These gains, plus some politicians who had run as independents, left the LDP in majority control.

Several factors contributed to the poor LDP showing. The party had more candidates running in the multiple-seat districts, as mentioned above. By running so many candidates in a year in which losses were expected, the LDP diffused its vote and

The December Diet Election

percent of total seats



lost more seats than it might have otherwise. The relatively low voter turnout, a manifestation of public disgust with former Prime Minister Tanaka's refusal to resign from his Diet seat, also damaged the LDP's chances. Ironically, Mr. Tanaka won more votes in his re-election campaign than ever before, and his faction fared well, dropping only four seats.

The lack of a domestic economic policy designed to stimulate the economy, and confusion over the prime minster's commitment to an income-tax cut also hurt Mr. Nakasone, who had emphasized his position as a global leader. Defense issues played a quiet role in the elections and were not as critical as suggested by some American media accounts. The vote was not a repudiation of Japan's defense buildup, although the issue might have hindered the LDP among women voters.

With the new coalition established, Prime Minister Nakasone announced his new Cabinet on December 26, appointing members from all major factions (see Appendix A). But the Tanaka faction was still the most heavily represented, with six of its members in major posts. Nakasone faction members were assigned to three positions, of which the most intriguing was the relatively unknown Minister of International Trade and Industry, Hikosaburo Okonogi. Tanaka confidante Susumu Nikaido was replaced by Rokusuke Tanaka in the important post of LDP Secretary General.

The appointments were announed shortly after the prime minister met with senior LDP leaders and subsequently promised to limit the influence of former Prime Minister Tanaka in party affairs. In a statement issued December 24, Mr. Nakasone lamented party losses in the elections, but refused to resign from office. Promising to restore the tarnished image of the party, he emphasized that he would pay more attention to ethics in government.

While the election came too late in the year for the new political lineup to have any influence on events, it was clear that the prime minister was in a much weakened position. Although the elections earlier in the year had generally been successes for the LDP, the lower house election was a disaster. This would undoubtedly affect his abililty to carry out policies in 1984.

Energy Policies

Energy supplies and conservation had been dominant issues in Japan during much of the 1970s and early 1980s. However, by 1983, energy concerns were fading into the background. The main development during the year was a new long-term forecast that incorporated the glut of oil supplies on world markets. A bilateral energy task force was also launched and is considered in Part VI as part of the consideration of Alaskan oil exports to Japan.

Declining Concern

In spite of anticipated lower dependency on oil in the future, any forecast showed Japan continuing to be dependent to a large extend on imported oil. Therefore, the Japanese closely followed the outcome of the OPEC meeting in London in March 1983. The resulting announcement that the official Saudi Arabian light oil bench price would be lowered from $34 to $29 per barrel brought conflicting reactions in Japan.

None of the Japanese forecasters and analysts believed that the $29 per barrel could stick, considering OPEC's declining control of the market and the increased number of spot market deals. Some expected eventual stabilization at a somewhat lower price, for reasons ranging from the political nature of oil and the expected rise in consumption due to economic recovery to a continued subordinate role for alternative energy resources for the rest of the century. On the other hand, others expected that prices would continue to fall, followed by an equally steep recovery, accompanied by another round of market instability and disruption. Oil companies in Japan tended to hold forth for another interpretation, which was that the oil glut would continue for at least five to seven years, with only gradual price increases.

Prior to the London OPEC meeting, there was lively debate in Japan on the possibility of a negative impact from an oil price cut. Some economists argued that if the price was cut it would mean declines in revenue for the oil-producing countries, leading in turn to shrinking imports, thereby hurting Japanese exports. They were also concerned that a cut in revenue might lead to sudden changes in the oil-producing countries' foreign investment policies, changes which might disrupt international financial markets and threaten Japanese large-scale plant exports to the Middle East.

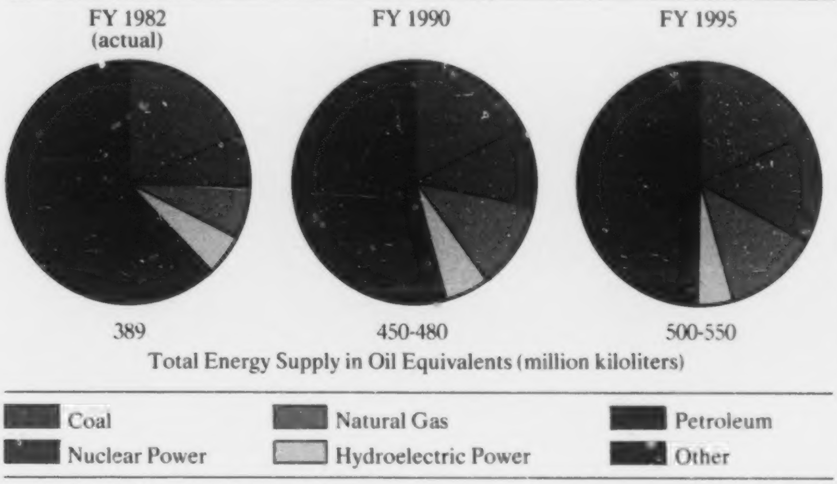
Those who welcomed the price cut argued that the cut in the import bill for Japan would have an immediate favorable impact on the balance of payments. Domestically, the cut would have a favorable impact on inflation. If prices were to remain stable and Japanese exports were to expand, some assumed that the oil price cut would lead to yen appreciation.

As these divergent reactions to the oil price cut indicate, Japan was not as unanimous in its reaction as were other industrial countries. The Japanese government, while seeing beneficial effects from the cut, had tried to hold back on changing long-term forecasts for oil consumption. Officials feared that the drop could be short-term, and a shift in energy policy on the basis of short-term oil price changes could leave Japan in a vulnerable position in the future. However, as is evidenced by the revised long-term forecast discussed below, oil was finally being given a somewhat larger role for the future.

Revised Forecast

Due to the continuing decline in energy demand stemming from structural changes in the economy and continuing conservation efforts, the Comprehensive Energy Policy Council, an advisory group to MITI, recommended a reduction of energy demand estimates for FY 1990. In FY 1982, energy demand was the equivalent of 380 million kiloliters of oil. The council estimated that in FY 1990 total demand would

Japan's Revised Energy Outlook



Source: Ministry of International Trade and Industry

reach the equivalent of 430 to 450 million kiloliters of oil. This was considerably below the 563 million kiloliters estimated in the previous long-term forecast, made in April 1982.

While the new forecast included a drop in the demand for oil, the ratio of oil to total energy sources was actually higher than in the earlier forecast. MITI had earlier hoped to cut oil usage to 49 percent of total energy supply in Japan by FY 1990, but in the new forecast that percentage was a slightly higher 52 percent. Nevertheless, even at the higher percentage, actual oil use was anticipated to be some 40 to 50 million kiloliters less than in the earlier estimate.

The revised forecast reflected a number of factors. First, the underlying assumptions about economic growth were lowered, since the earlier 1982 forecast had been based on a real GNP growth of 5 percent. Second, assumptions about the structure of industry were modified, with a stronger move toward less energy-intensive industries than had been anticipated earlier and greater payoff from conservation efforts being incorporated into the new forecast.

Trade and Investment

During 1983, both the balance of payments and the customs clearance measures of trade showed Japan with rapidly increasing surpluses. These fed into the continuation of the bilateral problems discussed in Part VI even though the causes of the rising surpluses were not trade barriers but economic factors. With the trade and current-account surpluses, capital continued to flow out of Japan. This is reflected in the balance-of-payments data presented below as well as in the data on foreign direct investment.

Balance of Payments

According to the balance-of-payments figures released by the Ministry of Finance, Japan's current account (the trade balance plus services and transfers) registered a record surplus of $20.8 billion, reflecting a $31.5 billion trade surplus. The basic balance (the current-account balance plus long-term capital flows) also registered a surplus for the first time in five years. Even the overall balance (basic balance plus short-term capital movements plus errors and omissions) showed a surplus of $5.2 billion. This surplus was offset, as it must be in the double-entry balance-of-payments accounting framework, by a similarly sized rise in foreign currency holdings in Japan in the form of official foreign exchange reserves and private bank deposits.

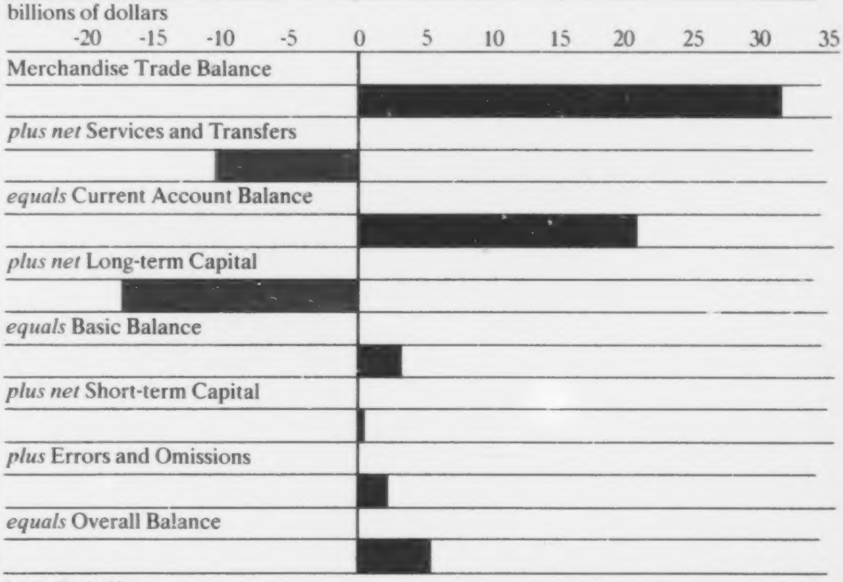
Merchandise Trade On a balance-of-payments basis, which measures both exports and imports f.o.b., exports grew by 5.7 percent in 1983, while imports dropped by 4.7 percent, generating the record $31.5 billion surplus. Indicating the rapidity with which the surplus was rising, it was up 75 percent from the $18.1 billion surplus in 1982, which had actually been slightly lower than the 1981 surplus.

The rise in exports was attributed by the Japanese government to the strengthening world recovery, especially in the United States. Another factor was the continued strong price competitiveness of exports at the yen-dollar exchange rates that prevailed during the year. Although the yen was stronger on average than it had been in 1982, the rise still left Japanese prices very competitive. Imports were affected by the oil price declines and the uncompetitiveness of foreign products at those same yen-dollar exchange rates.

Current Account The current account is made up of merchandise trade plus services trade and transfers. While the rapid buildup of the merchandise trade surplus was the main factor involved in the current-account surplus in 1983, services and transfers played a role as well.

Japan has traditionally run a large and growing deficit on services. After a peak

Japan's Balance of Payments, 1983



Source: Bank of Japan

deficit of over $13 billion in 1981, though, it declined in both 1982 and 1983. For 1982, the explanation was that the drop in total trade reduced the size of the deficit due to declining payments for trade-related service expenses such as transportation and insurance. However, in 1983 there was no similar decline in merchandise trade, but the services deficit continued to drop, registering a deficit of $9.1 billion for the year, down from the $9.8 billion deficit in 1982.

Transfers, representing the flow of foreign aid, are a small item and show a deficit for Japan, reflecting its position as an aid donor. For 1983 there was a net deficit of $1.6 billion, larger than the $1.4 billion deficit in 1982.

These changes yielded a current-account surplus of $20.8 billion for 1983, a dramatic increase from the $6.9 billion surplus in 1982. This also represents a rapid recovery from the large current-account deficits that prevailed in 1979 and 1980 in the wake of the second oil shock. Since 1980, Japan has undergone a $31 billion rise in its current-account balance.

Capital Flows and Official Reserves The strong dollar and looser restrictions on foreign activities for both Japanese commercial and financial businesses helped increase the net outflow of long-term capital. Long-term capital outflows rose by $5.1 billion to $32.5 billion, outweighing the rise in capital inflows of $2.3 billion to $14.8 billion during 1983. This left a net long-term capital outflow of $17.7 billion. Japanese banks were extremely active in the Euromarket, increasing their holdings above those of other participants.

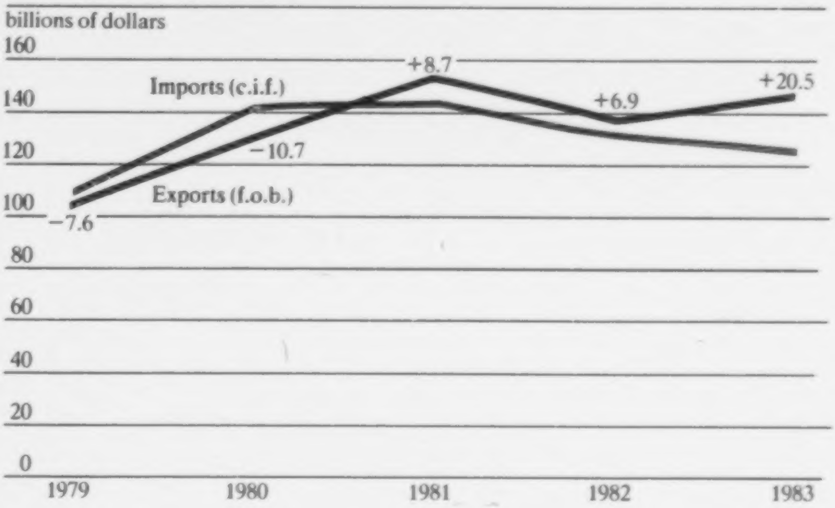
Short-term capital registered a small net inflow of $23 million. Errors and omissions, a balancing term, also registered a net inflow of $2.1 billion. Most of the errors term should reflect capital inflows that are not captured in either the long-term or short-term measures. These developments left the overall balance at a surplus of $5.2 billion, a dramatic rise from the $5 billion deficit of 1982.

The overall balance surplus is necessarily offset by equal increases in holdings of foreign currencies in Japan. Official foreign exchange reserves increased by $10.2 billion, while other holdings of foreign currencies dropped by $4.2 billion. The sizable change reported for official foreign exchange reserves is odd, considering that the data released on the size of official reserves show $23.3 billion in reserves at the end of December 1982 and $24.5 billion at the end of December 1983, an increase of only $1.2 billion.

Customs Clearance Trade

The customs clearance trade data measure exports f.o.b. and imports c.i.f., giving a somewhat different set of totals than the merchandise trade data in the balance of payments. However, the trend was the same for 1983, with Japan running a record surplus of $20.5 billion. This was nearly three times 1982's $6.9 billion and easily topped the previous record of $18.2 billion set in 1978. The sharp climb was the combined result of a 5.8 percent increase in exports with a 4.2 percent decline in imports.

Japan's Customs Clearance Trade



Source: Ministry of Finance

Contributing to the $146.9 billion export performance were shipments of office equipment, which jumped 63.8 percent over 1982, electronic components, which rose 38.9 percent, and video cassette recorders, up 22.3 percent. While exports of passenger cars gained 6.4 percent in value over the previous year, the volume grew only 0.7 percent, with most of the increase coming from a rise in the average unit value of 8.5 percent. Clearly, the numerous restraints on exports of Japanese cars were holding down their numerical growth.

The primary factor accounting for the drop in imports to $126.4 billion from $131.9 billion in 1982 was the fall in both the price and quantity of petroleum imports, which constituted about one-third of all imports. Imports of crude and partially refined oil fell 13.4 percent, representing 207 million kiloliters, slightly under 1982's figure and 28.5 percent less than 1973's record 290 million kiloliters. Reflecting a drop in steel exports of 17.9 percent, imports of iron ore fell 13.3 percent and coal imports shrank 15.6 percent over 1982.

Japan registered record trade surpluses with a number of individual trading partners as well, most notably with the United States ($18.2 billion) and the European Community ($10.4 billion). Exports to the United States totaled $42.8 billion, a 17.9 percent increase over 1982, and imports reached $24.7 billion, only 1.9 percent above the year before.

The Ministry of Finance attributed the record export performance for the most part to the recovery of the U.S. economy combined with the strong dollar. While the U.S. economy was certainly not the only influence on Japan's trade balance, it was certainly important, since exports to the United States accounted for 29.1 percent of total Japanese exports in 1983. In addition to this direct link, the U.S. economy was sufficiently strong to stimulate Southeast Asian economies to some extent (see Part III), boosting their trade with Japan as well. Japanese exports to the region totaled $18.5 billion, up 8.6 percent, while imports fell 6.5 percent to $28 billion. Japan's strong performance vis-a-vis the EC was a bit more puzzling given the Community's very sluggish 1983 GNP growth of around 1 percent.

Foreign Direct Investment

As part of the continued outflow of capital shown in the balance-of-payments data presented above, foreign direct investment outflows in FY 1982 (ending March 31, 1983) amounted to $7.7 billion. This was 13.7 percent lower than in the previous year, but still a high level for Japan. This brought the cumulative total for foreign direct investment to $53.1 billion. The main reason for the drop in the annual flow was the completion of a very large natural resource development project in Indonesia that had caused an upward blip in FY 1981. Thus, investment flows held up despite higher investment costs due to the depreciation of the yen, deteriorating corporate balance sheets and continued sluggish world economic growth during the fiscal year.

The flow of funds into North America indicated how resilient Japanese foreign investment was, since the economic constraints on overseas investment should have been more binding here than elsewhere. A record $2.9 billion was invested in the United States and Canada, or 15.2 percent more than in the previous year. Further details of investment in the United States are contained in Part VI.

Direct investment in Europe also continued to expand, increasing 9.8 percent to almost $0.9 billion in response to greater activity in West Germany, the United Kingdom and France. By March 1983, therefore, just under $6.2 billion had been invested in the area, with fifth-ranked Britain accounting for $2.3 billion of this amount. In contrast, Japanese corporate investment in Australia and New Zealand, at $0.4 billion, showed no increase. Still, cumulative investment in these two countries was $3.1 billion at the end of the fiscal year.

Japanese investment activity in developing countries was also surprisingly buoyant. Latin American countries, particularly sixth-ranked Panama and number-three Brazil, as well as Peru and Mexico, again attracted a large influx of Japanese corporate money. Investments in this region went up 27.3 percent to $1.5 billion, with two-fifths of this amount earmarked for transportation services and much of the rest going into manufacturing facilities. Consequently, by the end of March Japanese direct investment in Latin America totaled almost $8.9 billion, with Brazil and Panama accounting for the bulk of this amount. In addition, the flow of investment funds into the Middle East increased by 29.2 percent to $0.1 billion, for a cumulative total of $2.5 billion.

Japanese foreign investment in other Asian countries did contract during the fiscal year, dropping by 58.5 percent to $1.4 billion. However, outside of Indonesia, where companies pared their spending from $2.4 billion to just $0.4 billion, Japanese investment activity held its own, particularly in the manufacturing sector. As a result, Japanese corporations had over $14.5 billion invested in Asia at the end of FY 1982, including $7.3 billion in Indonesia, second only to the United States as an overseas investment site. The flow of investment funds into African countries fell as well during the year, but by a more modest 14.7 percent to $0.5 billion. The cumulative total for Africa was $2.5 billion.

The geographical breakdown of Japanese foreign direct investment in FY 1982 marked a return to the pattern of the late 1970s. So did the sectoral distribution, with its heavy emphasis on manufacturing and commercial activities. Japanese companies were particularly active in the commercial arena, adding $1.9 billion to their overseas sales affiliates. This 61-percent addition boosted the cumulative value of investment in the commercial sector to $8.5 billion, over three-fifths of which was in the United States and Canada.

Corporate investors in Japan were equally active on the manufacturing front, putting $2.1 billion into offshore production facilities. While this funding level was 10 percent lower than in the previous year, manufacturing continued to represent the leading edge of Japanese foreign direct investment, totaling $17 billion as of March 1983, including $5.8 billion in Asia, nearly $4.3 billion in North America and $3.4 billion in Latin America.

Not surprisingly, the main sector where Japanese foreign direct investment activity slowed in FY 1982 was in mining, as outlays dropped to $0.7 billion from $2.5 billion in the previous year. Still, investors had $10.3 billion invested in overseas mining projects at the end of the fiscal year, divided almost evenly between Asian countries, especially Indonesia, and the rest of the world. Investment in the finance and insurance sector also ebbed, falling 36.8 percent to $0.5 billion. Through FY 1982, though, Japanese companies had funneled $3.8 billion into overseas finance and insurance businesses, primarily in the United States and Europe.

International Economic Policy

With the rapidly rising trade surpluses described above, and only a glimmer of economic recovery in some trading partners, 1983 proved to be a year of continued problems for Japan. The following section considers policy actions taken in general in response to these problems, as well as a review of relations with particular countries other than the United States.

Continued Unilateral Response

One of the features of the past few years has been that Japan has been placed in the position of making unilateral concessions to further open its markets. This trend continued in 1983 in response to pressure from the United States, the European Community and other trading partners.

Market Access Package In January, Japan made the first step of the year when the Customs Tariff Council forwarded to the Diet a series of market-access measures. These confirmed tariff reductions announced the previous December and added a number of concessions on cigarettes, chocolate, numerically controlled machine tools and farm tractors that had been the center of controversy for several months. The Council approved tariff reductions for 47 agricultural products and 28 industrial products, including a significant number of items that were not included earlier, notably manufactured tobacco products, chocolate and biscuits.

The tariff on imported cigarettes had earlier been lowered from 90 percent to 35 percent. As a result total sales of foreign cigarettes increased 21.7 percent in 1981, while sales of domestic brands rose only 1.4 percent. In this round, cigarette tariffs dropped to 20 percent and duties on cigar and pipe tobacco were also reduced, bringing the tobacco-related tariffs to levels comparable to those in the United States and below a number of other countries. The rate on chocolate, which was of interest to the United States as well as the European countries, was reduced from 36.3 percent to 20 percent, and the tariff on biscuits was cut from 36.3 percent to 24 percent (sweetened) and from 31.9 percent to 20 percent (unsweetened). The decision to reduce these tariffs was made despite the strong resistance of domestic interest groups.

Soon after these tariff measures were announced, a broader package of market access decisions was announced in advance of Prime Minister Nakasone's trip to Washington. The new policy affirmed the Tariff Council's recommendations on tariff cuts and endorsed action to liberalize customs procedures, product standards and testing criteria that restricted the import of goods into Japan. The basic principle in these measures was to provide equal treatment for foreign and domestic goods. Besides the previously announced tariff changes, the package included the following policies:

- In order to bolster the activities of the Office of Trade Ombudsman, an eight-member advisory council was to be appointed.
- A liaison and coordinating headquarters directed by the Chief Cabinet Secretary and concerned ministries and agencies was to be charged with examining some thirty laws which formed the basis for standards and import testing and certification procedures. The legislative outcome of this recommendation is considered below.
- Aside from the tariff concessions on tobacco, the government liberalized access for manufactured tobacco products, increasing the number of retail outlets allowed to handle imports.

Many of the items in the package were of primary importance to bilateral relations, and some of the further details on specific issues are considered in Part VI.

Standards Revision Based on the work of the committee set up by the January package, in April the Cabinet submitted to the Diet a bill which was passed and became law. The legislation was an omnibus bill to improve Japan's import standards and certification systems. Included were changes in 16 separate laws, including those concerning pharmaceuticals, chemicals, agricultural products, natural gas, consumer electric appliances and automotive products.

One of the significant changes was that all foreign manufacturers were permitted to apply directly for certification. In some earlier cases, the sales agent in Japan held the certification for the product and a company changing its representative had to proceed as if it had never before acquired approval. Next, any procedures entailing reporting, on-site inspection or measures to prevent hazards were now requested rather than required, since, it was noted, such measures were beyond Japan's jurisdiction. Third, compliance in certain instances was to be enforced by withdrawing certification rather than by imposing other penalties. Finally, when actions were required on a constant basis, such as the collection of information on adverse reactions to drugs, implementation of recall orders, and record-keeping for pharmaceuticals, agricultural chemicals and fertilizers, an agent to implement such actions was now required to be present in Japan.

Perhaps the most important changes in the law related to the acceptance of foreign test data, which had been prohibited for most types of products. Under the new law, acceptance of foreign test data was given a considerable boost, including that for pharmaceuticals, which had been a sore point in the past. In addition to pharmaceuticals, foreign test data were to be accepted for tests on agricultural chemicals, consumer products, household electric appliances and chemical substances. This did not mean that foreign data would be accepted in all cases, but that the scope for acceptance would be greatly expanded.

In addition, some steps were taken to increase the transparency of the standards setting process, including participation of foreigners on private standards-setting bodies and better prior notification. Work was to continue to bring Japanese standards into better conformity with international standards. These were all important changes, and while some of them depended on the actual administrative moves to be made under the new law, the reaction from abroad was very favorable.

Additives In May, Japan moved to ease another long-simmering problem with its trading partners by expanding the list of permissible food additives. Since 1972, when the Japanese Diet adopted a resolution calling on regulatory authorities to limit the use of food additives as much as possible, the Ministry of Health and Welfare had routinely rejected large numbers of additives submitted for approval by both Japanese and foreign makers of processed foods on the grounds that there was no need for them. As a result, only seven new additives had been added to Japan's list of substances safe for human consumption since that time.

Late in 1982, Japanese authorities agreed to accept a U.S. proposal that health officials look into the possibility of including new food additives on the approved list based on internationally acceptable scientific data. The review process went ahead in 1983, and was expected to result in systematic expansion of the approved list, as well as in relaxed usage restrictions for some additives already on the list and increased tolerance for others. By the spring, the Food Sanitation Investigation Council, attached to the Health and Welfare Ministry, had recommended approval of six of the ten new food additives initially suggested by the American government. This process continued through the year.

Second Market Access Package During the summer, Prime Minister Nakasone asked that a new package of concessions be worked out by late September. This responsibility was given to the LDP's Select Committee on International Economic Measures in June. In the end, this international package was joined to the economic stimulus package also being devised for release in the fall. In a late July cabinet meeting, Jun Shiozaki, director general of the Economic Planning Agency, was appointed to be in charge of an interagency coordinating effort to put this package together. Although the target had been late September, the final package did not emerge until October 21 because of interagency wrangling over its contents. The domestic stimulus aspects of the package have already been discussed under fiscal and monetary policy.

When announced, the report cited a number of measures to improve the lagging pace of imports, among them the elimination or reduction of tariffs, implementation of the new laws on standards and certification, and reinforcement of the Office of Trade Ombudsman. As one boost, the Export-Import Bank was to offer low-interest rate loans for imports of manufactured goods under eased eligibility requirements. The Japan External Trade Organization (JETRO) was also to strengthen its import promotion functions, and additional government procurement of imported goods was planned.

As for promoting capital flows, in an attempt to increase demand for the currency and thereby cause the yen to appreciate, the government said it would consider issuing bonds in the U.S. market for the first time since 1963. However, this proposal remained at the discussion stage in the October announcement. Additionally, the establishment of a market for yen-denominated bankers acceptances was to be examined, along with various other measures to facilitate capital flows.

As is common in these broad policy packages in Japan, there were few specifics and numerous exhortations. Under this rubric fell a number of suggested improvements, including the acquisition of corporate stock by nonresidents; the liberalization of laws governing foreign investment in real estate; greater participation by foreign enterprises in the banking, insurance and securities sectors; cooperation in investment and technology exchanges in third markets; and financial cooperation with international financial institutions, including the IMF and the World Bank.

On the tariff front, Japan decided to move up the duty reductions on 1,200 manufactures from April 1984 to April 1983 under its commitments to the 1979 Tokyo Round agreement. It was also willing to accelerate the cuts scheduled for FY 1986 and FY 1987 to FY 1984 if the United States and the EC were willing to follow suit. In another move, the announcement stated that Japan would reduce or eliminate tariffs on 44 products singled out by the United States and other trading partners. However, a number of tariffs that the United States had asked to be lowered were not included in the package.

After the October package had been announced, the only other package of unilateral concessions came in the bilateral statement on financial market liberalization. As this was largely a bilateral issue, it is dealt with in Part VI. That was the last action for the year, since the upcoming Diet election absorbed political attention through December.

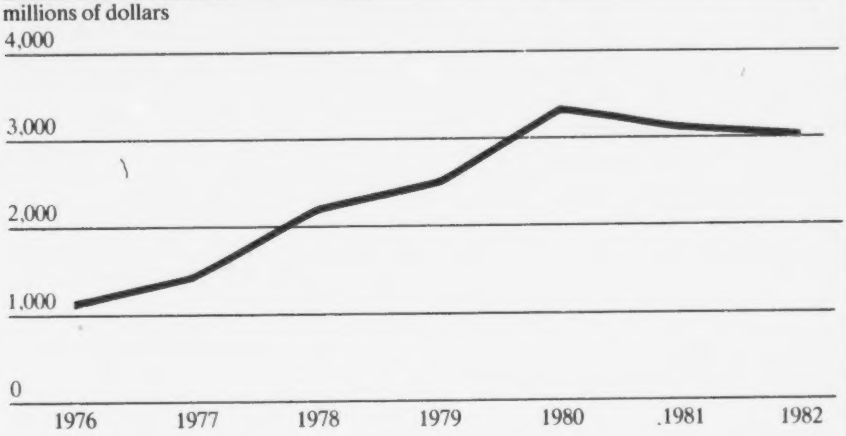
Foreign Aid

Within Japan's comprehensive security approach to the world, foreign aid has considerable importance, serving as something of a substitute for defense spending. Given that recognition, Japan has endeavored to rapidly increase its aid contributions, but this goal was running into difficulties because of the government's effort to hold down all forms of spending to deal with budget deficits. Exchange rate fluctuations were also diminishing the dollar value of aid contributions.

Foreign aid data appear with a lag, so that the discussion here covers 1982 activity. Japan's official development assistance (ODA) in 1982 dropped 4.7 percent from 1981's figure to $3.02 billion, continuing a trend that reduced allocations in 1981 as well. In yen terms, however, ODA increased 7.7 percent to ¥752.9 billion, moving up as a percentage of the gross national product from 0.28 percent in 1981 to 0.29 percent in 1982.

The breakdown for economic assistance programs shows bilateral aid at $2.4 billion, a 4.7 percent increase over 1981's $2.3 billion. Grants slipped 0.6 percent, technology cooperation rose 4 percent, and there was a 7.7-percent increase in yen and commodity loans, particularly to China. Concurrently, multilateral aid slowed to $656 million, a 28 percent decrease over year-earlier levels, with grants of $260 million (up 0.8 percent) and capital contributions to international financial institutions, including the World Bank, the International Development Association (IDA) and the Asian Development Bank, of $401 million (down 39.2 percent over the previous year).

Japan's Overseas Development Assistance



Source: Ministry of Foreign Affairs

The Ministry of Foreign Affairs said that Japan's capital subscription to these institutions fell as a result of policies to boost bilateral lending programs that delayed the sixth IDA replenishment. At the same time, officials noted that the sharp depreciation in the value of the yen between 1981 and 1982 was the major factor behind the apparent dollar decline.

Because of the two annual contractions in the dollar value of foreign aid, Japan faced difficulties in attaining the government's aim of doubling ODA to $10.5 billion by 1985. Originally the government had planned annual hikes of 8.6 percent, far less than the 28.5 percent a year that would be required for the remaining period if the target were to be met. In the FY 1983 budget approved in April 1983, aid spending was set to rise 6.2 percent, and in the FY 1984 budget that was taking shape at the end of 1983, another rise of 7.9 percent was planned. Even these rises were remarkable, given the very stiff limits placed on most spending programs by the Ministry of Finance.

Problems with the EC

As 1983 began, relations between Japan and the European Community were still troubled by a number of problems. Following a five-nation tour in January, Foreign Minister Shintaro Abe acknowledged that criticism was likely to continue. Despite his reassurances to European officials about the January market access package that contained measures to liberalize market access for a number of industrial and agricultural products of interest to European companies, officials did not believe that the European trade deficit with Japan would shrink. During the year there were discussions and arguments over both moves to limit Japanese access to European markets and efforts to expand European access to Japanese markets.

Access to European Markets This negative tone pervaded relations during the year, with the question of the trade balance dominating the scene. One of the points of contention was the European charge that Japanese exporters emphasize sales of a particular product in a country. The intense competition by Japanese firms for shares of the European national markets was accused of creating a flood of Japanese imports that adversely affected domestic producers. In 1983, exports of Japanese video cassette recorders (VCRs) to the Netherlands rose 32 percent, deliveries of Japanese autos to France rose 40 percent, and exports of Japanese quartz watches to Ireland ballooned 766 percent in the first half of the year. The Japanese held significant positions in many products, including cars (32 percent of Norway's market), video equipment (80 percent of the entire EC market) and bearings (16.5 percent of West Germany's total). While exports of some products—notably automobiles—were already under bilateral restrictions, magnitudes of this sort prompted the EC to seek community-wide voluntary export restraints from Japan for the first time. In February 1983, an agreement was concluded covering several sensitive products including machine tools, watches and video cassette recorders.

This agreement set quantitative limits only on exports of Japanese VCRs, color TV sets and components, but placed nine other items in a closely monitored group. While the accord did moderate the growth of color TV exports to the EC to between 3 and 6 percent, and actually reduced the level of VCR exports 10 percent from 1982, it did not have much effect on watches (up 120 percent from 1982), forklifts (up 25 percent) or cars (up 23 percent). Despite these problems, the EC and Japan agreed in November 1983 to raise the numerical limits on VCR exports for 1984 to 5.05 million units, an increase of 11 percent, but leave unchanged provisions covering the other items.

Another rough spot concerned Japanese exports of digital audio disk (DAD) equipment, which held a majority share of the market in the Community. The Europeans, not wishing to repeat their experience with video cassette recorders, attempted to preempt Japanese dominance of the market by doubling the tariff on DAD imports in October 1983. The Japanese immediately threatened to complain to the mediation council of the General Agreement on Tariffs and Trade (GATT). The issue was particularly sensitive because the Europeans broke with international norms by imposing a specific restriction on a product that had not been marketed for more than three years. Ironically, DAD technology was developed by Japan's Sony Corp. and the Netherland's N.V. Philips, and the action was seen as a blow to similar arrangements in the future. The Japanese viewed this as pre-emptive protectionism which would seriously threaten free trade if allowed to go unchallenged.

Access to Japanese Markets Paralleling the focus on trade from Japan to the EC, shipments in the opposite direction also received a great deal of attention. The issue that generated the loudest complaints was the low level of manufactured exports to Japan. EC officials pointed out that the Japanese ratio of manufactured imports to total imports had remained near the 20 percent level for the previous 10 years. By comparison, the ratio for the EC had been hovering around 40 percent during the same period. The Europeans claimed that this low figure was evidence of the "closed" nature of the Japanese economy and pressed for an active import promotion campaign by the Japanese as well as the liberalization of Japanese tariff and nontariff barriers. These complaints were formalized in 1982 by a petition to the GATT under Article 23, which requires bilateral consultations as the first stage in the mediation process. After a few fruitless diplomatic skirmishes, the EC ministers moved to the second stage of the process, asking for GATT arbitration in spite of the verbal promise by EC Vice Chairman Etienne Davignon to Foreign Minister Abe that the matter would be handled through direct bilateral negotiations. This call for multilateral consultations brought loud protests from the Japanese government, accompanied by countercharges against the European system of tariffs specifically aimed at trade with Japan. Faced with the prospect of an attack on its tariff system, the EC decided in 1983 not to pursue the GATT process.

Another conflict occurred over the Japanese decision to purchase the American Boeing 767 jetliner over the European Airbus Industrie's A300 aircraft. When the decision was announced, the French—who thought they had a verbal commitment from Japan on the Airbus—were outraged. The subsequent claims and counterclaims in the French and Japanese press did nothing to enhance the atmosphere.

The Japanese did not sit idly by during this period. The general market liberalization measures in 1983 clearly affected the Europeans as well as the Americans. While the Europeans publicly welcomed the January market access packages, the Japanese were forced to agree to the voluntary export restraints announced in February. The Japanese also hoped that the October 1983 economic stimulus package would pull in more imports. Japanese investors also stepped up their activities in Europe, and several commitments to open new TV and VCR plants on the continent were made during the year. While some European firms saw this as an end run around the wall of tariffs and quotas that existed, deals such as that between Honda Motor Co., Ltd. and British Leyland were acknowledged to be successful and mutually beneficial.

Despite intensive use of trade-restrictive tools, the Europeans and Japanese continued to emphasize cooperation as the real key to future relations. The principle was enshrined in policy statements and was reiterated, almost ritualistically, at each high-level meeting. Jaundiced observers noted that the statements constituted an empty litany and pointed out that few, if any, cooperative agreements existed as a result of government encouragement. However, there was expanding cooperation at the private sector level.

Relations with the Soviet Union

Japan's relations with the Soviet Union had been troubled for many years, and 1983 proved to be another year of deep freeze. There were some private sector efforts early in the year aimed at bringing a thaw to commercial relations, but these were ultimately thwarted by the Korean Air Line incident in September.

Trade Missions A 250-member trade mission headed by Shigeo Nagano of the Japan Chamber of Commerce went to Moscow in February, hoping to improve Japan's trade and economic relations with the Soviet Union. But the business community's initiative met with a cool response from the Japanese government, which denied requests for an official note from the prime minister to the Soviet leaders. At a briefing before departure, the Foreign Ministry warned the delegation that bilateral relations were at the lowest level of any time since normalization in 1956. The group was reminded that the Soviets did not separate economic and political issues and that the change in leadership would have no effect on the northern territories issue—the main obstacle to an improved relationship. Moreover, they were warned that Japan would comply with the Western alliance's economic sanctions against the Soviet Union imposed after the invasion of Afghanistan. Restrictions on high-technology transfers were specifically emphasized, for obvious reasons, and it was noted that Export-Import Bank financing on any project with the Soviet Union would be reviewed on a case-by-case basis.

Although at the conclusion of the meetings the Japanese business community and the Soviet government both confirmed their enthusiasm for an expansion of bilateral trade, the absence of any official blessing from Japan left a chill in the political climate. As for trade prospects, Komatsu Ltd. signed a ¥50 billion ($212 million) contract for pipe-laying equipment for the Siberian natural gas project—the first large-scale Japanese contract with the Soviet Union since President Reagan eased economic sanctions in November 1982.

Bilateral Government Meeting At a meeting in mid-April in Tokyo, foreign ministry officials of the two countries managed to disagree on almost everything—from the northern territories question to the nuclear disarmament negotiations. But in spite of this inauspicious beginning, Soviet Foreign Vice Minister Mikhail Kapitsa, who headed the Soviet delegation, told Foreign Minister Abe that he considered the meeting instructive, giving the Japanese the distinct impression that the Soviet Union was anxious to improve the strained relationship. The Soviet representatives, in fact, offered a "friendly neighbor-state" treaty (instead of a peace treaty), long-term economic cooperation and a guarantee of no nuclear strike in exchange for Japan's adherence to the nuclear arms ban.

The Japanese government emphasized that without a solution to the question of the northern territories (a series of islands north of Hokkaido occupied by the Soviet Union at the end of the war) no treaty was acceptable. Also rejected was the Soviet non-nuclear strike guarantee. The subject of economic cooperation was also a sore point because Japan joined in the sanctions against the Soviet Union in the wake of the Afghanistan invasion.

The two sides differed sharply on the question of the nuclear disarmament negotiations. While Japanse officials strongly endorsed the Reagan administration's interim proposal on intermediate nuclear forces, the Soviets attacked it as totally unacceptable. Japan also criticized an earlier statement by Foreign Minister Gromyko that the Soviet government intended to shift its SS-20 missiles in Europe to the Far East, and were not placated by Soviet explanations at the meeting.

As a further indication of worsening relations, Japan announced shortly after the bilateral meeting that it was tightening controls over the flow of high technology to the Soviet Union by delaying or rejecting visas to Russian and East European engineers and scientists applying for academic and technological exchanges. Organizations and companies hosting seminars and conferences attended by foreign guests were advised by the government to move certain meetings that were close to high-technology installations, and a number of Soviet and East European scientists were denied visas to visit research institutions. This was at least partly in response to a request from American officials who had earlier visted Japan to urge that it adopt a policy similar to that in the United States.

KAL Incident From the first reports about the stunning Soviet downing of a Korean Air Line (KAL) plane in the Sea of Japan, the United States and Japan closely coordinated their responses. Early information in the United States was largely supplied by Japanese sources, including the tape of conversations between Soviet pilots and the ground stations.

Japan quickly denounced the Soviet action at the United Nations Security Council and with Soviet officials in Tokyo. On September 9, the Cabinet announced sanctions that restricted government officials from flying Aeroflot for overseas trips and denied any Soviet charter flights from landing in Japan. On September 12, the sanctions were expanded to include a two-week ban on all flights between Japan and the Soviet Union.

The Diet also passed a unanimous resolution that described the Soviet action as barbaric and unforgivable. But aside from these gestures, foreign policy specialists, although they also criticized the Soviets, urged restraint in view of the importance of the long-term relationship.

Relations with China

During 1983, Japan actively continued to pursue better relations with China, reassuring it on defense policies, concluding a tax treaty, and culminating with an important visit to Japan by Party General Secretary Hu Yaobang.

Nikaido to China Anxious to reassure Chinese leaders that his pro-defense statements would not influence Tokyo's relations with Peking, Prime Minister Nakasone dispatched the Liberal Democratic Party's Secretary General Susumu Nikaido to China on February 18. The prime minister was concerned about a possible backlash to his position supporting a defense buildup and thought it advisable to stress that the government was not deviating from its strict self-defense policy. Prime Minister Zhao Zi-yang, Foreign Minister Wu Qian and Communist Party Secretary General Hu Yaobang accepted the explanations, but warned that the psychological impact of Japan's policy on other Asian nations was at stake. Both sides also took the opportunity to express alarm at remarks by Soviet Foreign Minister Gromyko that the Soviet Union might move its SS-20 missiles to Asia from Europe.

Tax Treaty In July, Japanese and Chinese officials agreed on the details of a reciprocal tax treaty after two and a half years of negotiations. The treaty had to be approved by the two governments and ratified by the Diet, but implementation was expected in 1984.

The absence of a tax treaty had been a major stumbling block in efforts to persuade the business community to enter the Chinese market. The new treaty followed OECD guidelines, stipulating that interest and dividend income of corporations in each country would be taxed below domestic levels. No taxes were imposed on representative offices, and interest accrued on loans from government-affiliated financial institutions was not to be taxed. Japan already had similar tax treaties with 34 countries, but this was China's first such treaty.

Hu Yaobang to Tokyo Hu Yaobang, general secretary of the Chinese Communist Party, arrived in Tokyo on November 23 for an eight-day visit which included two days of discussions with Prime Minister Nakasone. This was the first visit by Hu to a non-Communist country since he assumed his post, giving the trip considerable political importance.

Talks between the two leaders centered on common security concerns in the region. In the discussions, Mr. Nakasone pledged never to use force in settling disagreements with China. For his part, Mr. Hu avoided criticizing Japan's defense budget, noting that it represented a natural development for the country, and added that China did not fear any attack from Japan.

Relations with Korea and ASEAN

Japan also continued to cement ties with Korea and the ASEAN nations, including trips by Prime Minister Nakasone.

Korea In January, Prime Minister Nakasone visited Seoul, marking his first foreign trip as prime minister and making it clear that the government intended to mend strained relations with Korea. With its economy struggling to recover from the oil-shock recession, the Korean government had requested a $6 billion aid package in 1981, linking the request to the costs it sustained in the defense of the Korean Peninsula. This approach did little to advance the negotiations, which remained stalled despite sporadic efforts at resuscitation. However, Mr. Nakasone resolved the issue of economic aid at a $4 billion level over a multiyear period.

The aid package signed by Mr. Nakasone called for a seven-year commitment for construction of water purification plants, schools, medical facilities, dams and pollution control facilities. However, there was some disagreement on the implementation of the cooperation pact, with the Koreans preferring government-supported economic assistance projects, and Japan hoping for the private sector to take the initiative. The Koreans also identified 50 technology-transfer projects in which they were interested, including robotics, manufacturing, automotive engine design and numerically controlled machine tools. These specific proposals were left to be resolved later.

In September, a ministerial meeting in Tokyo emphasized the importance of technology transfers requested by Korea as part of the aid packages and urged an expansion of Japanese investment. However, the Japanese business community, concerned about its international competitiveness, was not overly enthusiastic about such programs. In addition, the two countries differed over policy toward North Korea. The Korean foreign minister said that until China, the Soviet Union and Eastern Europe improved relations with South Korea, the industrial democracies should limit exchanges with North Korea. Mr. Nakasone, however, made it clear that Japan intended to improve exchanges with North Korea.

One major boost to Japan-Korea relations came through the very supportive stance taken by the Japanese government after the downing of the KAL passenger plane by the Soviets in September. The details of the Japanese response are discussed above under relations with the Soviet Union.

ASEAN Prime Minister Nakasone traveled through the ASEAN countries in May, in preparation for the industrial nation summit meeting in June. One of his primary messages was to reassure Asian leaders that Japan was determined to maintain peace and stability and was going about a military buildup solely for its own security. Responding to the residual anti-Japanese sentiment in Southeast Asia, Mr. Nakasone expressed the hope that tensions between Japan and its Asian neighbors would be replaced by cooperative development and political efforts.

On the economic front, Mr. Nakasone announced a diversified package of aid, ranging from loans to technology transfers. This included a variety of loans to Indonesia, the Philippines and Thailand, direct aid to Singapore for educational programs, and a tariff cut on palm oil that affected Malaysia. In addition, he announced an ASEAN-wide expansion of a special tariff preference for minerals, as well as a large-scale exchange program for 150 students from each ASEAN country over the next five years.

Japanese officials considered the visit useful in sounding out the developing countries' views in advance of the Williamsburg economic summit. Mr. Nakasone had announced his intention to act as the Asian representative in addressing North-South issues at the meeting. In all, his trip to ASEAN seemed to be well received.

In July, Foreign Minister Abe attended the sixth ASEAN conference with ministers from the ASEAN countries plus the United States, West Germany, New Zealand and Australia. Although ASEAN gave high marks to Prime Minister Nakasone's efforts to represent Asian views at the Williamsburg summit meeting, they urged Japan to meet the needs of their economies by cutting tariffs on more products from the region. Mr. Abe responded by announcing that Japan would enlarge the generalized system of preferences (GSP) ceiling for industrial imports from ASEAN by 50 percent and would hold the first ministerial-level conference on science and technology in Tokyo by the end of 1983. Thus, relations continued to improve, though the ASEAN continued to press for concessions from Japan.

Part V · The U.S. Economy

Economic Overview

Surprising strength characterized the American economy in 1983 as it emerged from the recession which had plagued it for the previous two years. Consistently outdistancing the forecasts, the nation managed to put together a relatively normal recovery from one of the deepest recessions since the 1930s. The recovery was evident in almost all indicators, as industrial production rose, capital spending recovered, and unemployment began to decline. The external sector remained a problem, however, with the country running up record trade deficits as imports expanded rapidly while exports continued to contract. Inflation also began to reassert itself, though still at moderate levels, and interest rates remained within reasonable bounds. Encouraged by these developments, renewed consumer spending revitalized the lagging housing and automobile markets, both recording strong sales for the year.

GNP Growth

Revised data from the Commerce Department show the American economy grew 3.3 percent for the year, a sharp reversal of 1982's 1.7 percent contraction. Growth was strong throughout the year, starting with the 2.6 percent real growth at an annualized rate in the first quarter of 1983 after fourth quarter 1982's fall of 1.3 percent. Surging ahead, a 9.6 percent showing was made next quarter, but then the economy cooled down just a bit, growing 7.6 and 4.9 percent in the third and fourth quarters, respectively.

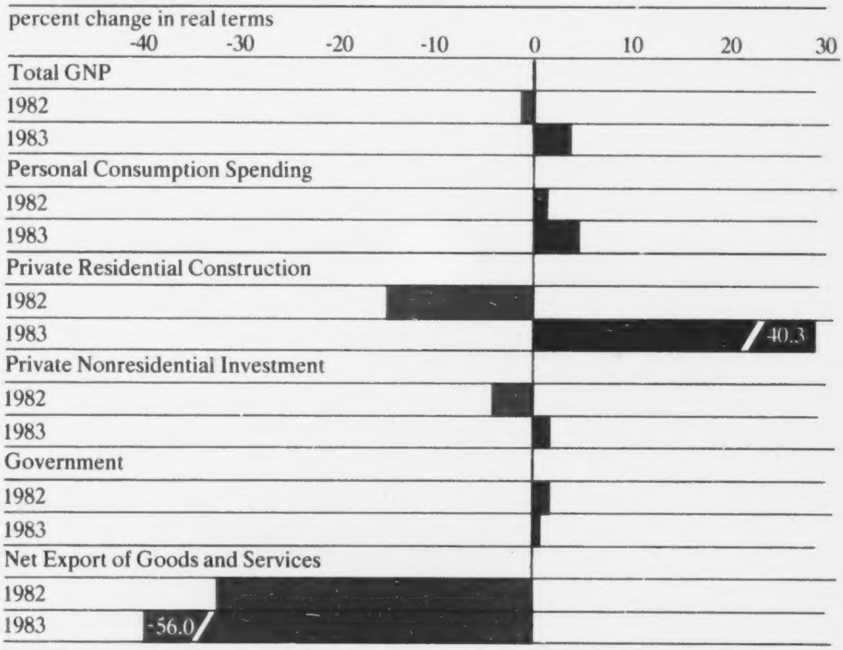
By Sector Nearly every sector of the economy registered improvement in 1983 as the recovery spread. Personal consumption, which accounts for 66 percent of GNP, perked up from the previous year's feeble 1.4 percent real growth, turning in a 4.2 percent expansion in real growth. Consumers opened up their pocketbooks, releasing pent-up purchasing power with most of it directed toward durable goods, which rose a strong 11.7 percent. Purchases of nondurables also rebounded from a 0.5 percent growth level in 1982, topping 3.2 percent in 1983. Services experienced a slight decline in rate of increase from 2.9 to 2.7 percent, with quarterly figures showing wide swings from a low 0.6 percent to 6.4 percent. This is somewhat disappointing since services make up the largest portion of personal consumption expenditures (47 percent in 1983).

Gross private fixed investment roared back from a real drop of 6.9 percent in 1982 to an 8.7 percent increase in 1983 on the strength of both residential investment (up 40.3 percent in real terms from 1982's 15.4 percent drop) and nonresidential investment (up a smaller 1.5 percent, in contrast to a 4.7 percent decrease the previous year). Only investment in structures showed a negative change, dropping 6.7 percent after 1982's weak, but positive 1.8 percent performance. Even then, expenditure for structures was strongly positive in the last two quarters of 1983 (racking up 11.1 and 11 percent growth figures) but was unable to cancel out the effects of a plummeting first half-year which featured contraction rates of 13.9 and 14.9 percent.

Government spending inched up a minuscule 0.5 percent, less than one-third of 1982's 1.8 percent figure. Overall federal spending rose just 1.2 percent (up 5.6 percent in 1982), with a 6.9 percent rise in real defense spending counterbalancing a 10.6 percent fall in nondefense outlays. State and local governments were still having trouble restructuring their finances, but made a marginal positive showing of 0.1 percent (compared with the 0.5 percent decrease the previous year).

Net exports of goods and services, on the other hand, continued its tumble, declining 56 percent from 1982. While the contraction of exports slowed to 5.4 percent from 1982's 7.8 percent, imports mushroomed, growing 7 percent from 1982's sluggish 1.4 percent.

U.S. GNP by Sector



Source: Department of Commerce

Comparison to Japan With the strong recovery in real GNP growth, the U.S. economy managed to outdistance Japan, by a small margin, for the first time since 1976. Not only was the overall growth higher in the United States, but the sectoral pattern was quite different as well, with the U.S. growth led by domestic private sector spending while Japan was still largely dependent on the growth of net exports. Japanese consumer spending was erratic, housing investment was negative for the first half of the year, and even its level of business investment was below that of the United States. The only two categories where the two countries were comparable was in government spending, where the concerns over budget deficits in both countries held down the increase in real government expenditures. For net exports, Japan was far ahead with its 27.4 percent gain due to a 4.8 percent rise in exports and a 4.7 percent reduction in imports.

Other Economic Developments

Industrial production rose throughout 1983 according to the Commerce Department's seasonally adjusted index, starting out at 137.4 and ending the year at 156.4, a 13.8 percent gain. Mining (up 2.6 points), utilities (up 20.1 points) and manufacturing (gaining 20.3 points overall with durables making a 21.8 point gain and nondurables moving up 18.1 points) showed improvements. All industry groups made gains—motor vehicles up 44.4 points, chemicals jumping 30.4 points and electrical machinery posting a 32.2 point rise—except for oil and gas extraction, which fell 0.6 of a point for the year.

Unemployment also presented a much brighter picture in 1983, with total unemployment averaging 9.5 percent, slightly better than 1982's 9.7 percent average. The average does not tell the full story, though, since a steady decline left the overall rate for civilian unemployment at 8.2 percent by the end of the year, down over 2 points from January's 10.4 percent level. Several groups remained untouched by the recovery, however, exhibiting double-digit unemployment rates for the entire year. Teenage (17.8 percent), minority (22.4 percent) and female heads of households (12.2 percent) continued to experience difficulty. Long-term unemployment (15 weeks or over) also continued to grow—1983's average was 20 percent higher than 1982's. Unemployment figures do not tell the entire story of what was happening to the labor force, since the total number of people employed rose by a strong 4 million over the year to 103 million (a 4 percent gain in jobs) with most of the improvement occurring in the second half of the year.

Nonfarm business productivity grew 3.1 percent for the year, according to the Labor Department, a vast improvement over 1982's marginal rise of 0.1 percent. On a quarterly basis, an even better performance was revealed in figures of 3.7 percent, 7.1 percent, 2.3 percent and 1 percent for each quarter, respectively.

Inflation continued to drop during 1983, so that there was only a 3.2 percent increase in the consumer price index for all items for the entire year, comparing favorably with 1982's 6.1 percent increase. Every component of the index conformed to this trend: growth of food prices was cut nearly in half to 2.1 percent from 4 percent; nonfood commodities grew 3.2 percent in price versus 1982's 4 percent; the cost of services increased only 3.5 percent as opposed to 9 percent in 1982; the growth of medical costs also slowed to 8.7 percent from 11.9 percent; and energy prices were up just 0.8 percent, the best performance since 1964. Low energy prices, tight monetary policy and ample slack in the economy kept a lid on prices despite the rapidly building recovery.

Monetary Policy

Policy Stance Interest rates began a slow upward trend during 1983 in response to the expanding economy and restrained growth of the money supply. This was an unusual and disturbing development, since interest rates usually continue falling in the early phases of recovery.

While a series of corporate tax cuts improved business's cash flow, reducing their need to borrow to finance fixed investment activity, a combination of rising consumer debt and fears over the effects of monstrous federal budget deficits worked to keep interest rates from falling. The prime rate charged by commercial banks to their best customers began the year at 8.2 percent and topped 9.7 percent in August before falling back to 9.5 percent by year end. Keeping in step with the prime rate, three-month Treasury bills worked up to 9.4 percent in August from 7.8 percent in January, and receded to 9 percent by December. Similarly, six-month Treasury bills went from 7.9 percent (January) to 9.5 percent (August) to 9.1 percent. Yields on triple A-rated bonds, reflecting the upward trend, fell from 15.2 percent to 11.8 percent.

The Federal Reserve Board held the discount rate offered to member banks to 8.5 percent throughout the year. With the attention of the Federal Open Market Committee riveted to interest rate changes rather than aggregate money supply figures, seasonally adjusted M1 grew a healthy 9 percent and M2 expanded 11.5 percent. The deregulation of financial markets necessitated the Fed's shift of emphasis, since it was not clear how this would affect demand for monetary assets and the Fed did not want to respond to false signals. With inflation beaten back, a relatively passive policy was pursued with interest rates allowed to rise somewhat in the second half of the year. This restrained policy permitted the expansion to take hold, particularly in the housing market where mortgage rates on both new and existing homes declined steadily for the entire year.

Real interest rates, however, remained high due to the fall in inflation, causing the inflow of foreign capital to America to continue unabated. The dollar, propped up by this demand, also stayed at high levels, meaning that export and import-competing sectors remained at a disadvantage for another year.

Comparison with Japan To a reduced degree, U.S. monetary policy continued to cause problems for Japanese authorities. While U.S. interest rates did not return to high levels, real interest rate differentials remained significant. Japan continued to experience a long-term capital outflow, mostly in the United States' direction. Faced with a stumbling economy, the government finally gave in to pressures for a stimulative discount rate cut in October, dropping it 0.5 percentage point.

Thus, monetary policy was more stimulative in Japan in the sense that interest rates were lower, although the growth of M1 and M2 was actually lower and was constrained by the developments in the United States. Those policies were justified by the very low rates of inflation in Japan, but the impact on the yen was unfortunate and led Japanese monetary authorities to blame the United States and its high interest rates.

Fiscal Policy

Budget Deficits The FY 1983 federal budget deficit was expected to reach $195 billion, representing a larger absolute increase ($84 billion versus $53 billion) though smaller percentage increase (76 percent versus 91 percent) over FY 1982's deficit than chalked up the previous fiscal year. The effects of the recession continued to inflate outlays while holding down revenues. Relief was in sight by the end of the year as the strong recovery began to provide tax receipts and falling unemployment reduced benefit payments. About half of the deficit, however, was considered by economists to be structural, not cyclical, meaning that a recovery would only reduce, not eliminate, the red ink.

The administration remained committed to its fiscal concepts of reducing spending while preventing major tax increases. In terms of cutting spending, administration and congressional sources said social welfare programs could not be reduced further—cuts would have to be made in defense, Social Security and/or Medicare to achieve further reductions in outlays. At the same time, reforming the income tax system gained attention as one means to enhance revenues. Closing loopholes and reducing deductions were discussed as two means of achieving this. No significant new tax cuts or increases were made during the year as everyone sat back to watch the development of the recovery.

Comparison with Japan Holding the line on spending was a similar theme in Japanese fiscal policy in 1983. Both countries wanted to reduce deficits without increasing taxes. The very limited increases in Japanese government spending were considered in Part IV. However, the Japanese were achieving greater success in holding the line on deficits; while deficits were not diminishing in size, neither were they increasing.

A major difference between the two countries remained, though, with the Japanese still facing a serious excess of private savings over private investment. As the government controlled the size of the deficit, part of this surplus had to show up as a capital outflow (and current-account surplus). The United States, with low rates of saving, was in the opposite condition, with the large government deficit, plus private sector investment demand, exceeding the supply of domestic savings, causing a large capital inflow (and current-account deficit). Because of the wide difference in macroeconomic flows in the two countries, the similarity of fiscal goals in the two countries was a mistake—Japan should have followed more expansionary policies and the United States should have followed more restrictive policies.

Trade and Investment

As noted above, the United States faced large trade and current-account deficits in 1983, with large capital inflows.

Balance of Payments Data

Merchandise Trade According to preliminary figures from the Department of Commerce, the U.S. merchandise trade deficit ballooned to a record $60.5 billion in 1983, up a sharp 66.4 percent from 1982's deficit of $36.4 billion. The deficit widened throughout the year, beginning at $8.9 billion the first quarter, jumping to $14.7 billion in the second, up again to $18.2 billion in the third and topping $18.8 billion in the fourth. On the other side of the Pacific, Japan's merchandise trade, though not strictly comparable due to accounting differences, was a mirror image of the U.S. position—its surplus grew 75.1 percent from 1982, swelling from $18.1 billion to $31.5 billion in a single year. Neither the negative American nor positive Japanese trend showed any sign of reversing itself by the year's end, enlivening the debate in the United States over trade remedies legislation and protectionism in general.

Merchandise exports shrank just over $11 billion during the year while imports grew a little more than $13.1 billion, leading to the record gap. The trend of merchandise exports was, however, upward during the year. Beginning at $49.3 billion, merchandise exports took a slight dip in the second quarter to $48.8 billion before rising to $50.4 billion and then $51.7 billion by the last quarter of 1983. This gentle upward trend was completely inundated by the steep rise of merchandise imports from $58.2 billion for the first quarter to $70.5 billion at year end. The mismatch in trends was in large part due to cyclical factors—the U.S. economy sitting on the upside of its business cycle, while the rest of the world was only just beginning to hesitantly emerge from the prolonged recession. The strong value of the dollar also played a large role in the trend.

Services and Transfers Another bit of bad news for the United States' external sector was the continued drop in the U.S. surplus in services trade, which amounted to $28.4 billion, a 14.6 percent fall from the previous year's $33.2 billion level. Again it appeared as if cyclical and monetary conditions caused a reduction in the surplus for the second year in a row. Reflecting those conditions, net receipts from direct investment fell to $15 billion from 1982's $18 billion, a 16.8 percent drop. After rising in 1982, the surplus in other net private receipts fell almost $2 billion to $21.4 billion in 1983. The U.S. deficit in the travel and passenger fares categories ($2.8 and $2.5 billion respectively, in contrast to $1.1 billion and $1.8 billion in 1982) pulled down the overall performance as the strong dollar made foreign travel a bargain. The surpluses in payments for fees and royalties and other private services were up 4.5 percent (reaching $7.1 billion) and 7.8 percent (topping $3.1 billion) respectively, helping to dampen the declines in other categories.

Net unilateral transfers of the United States also moved farther into the red, hitting $8.6 billion in contrast to 1982's $8 billion deficit. This reflected increased U.S. foreign economic assistance.

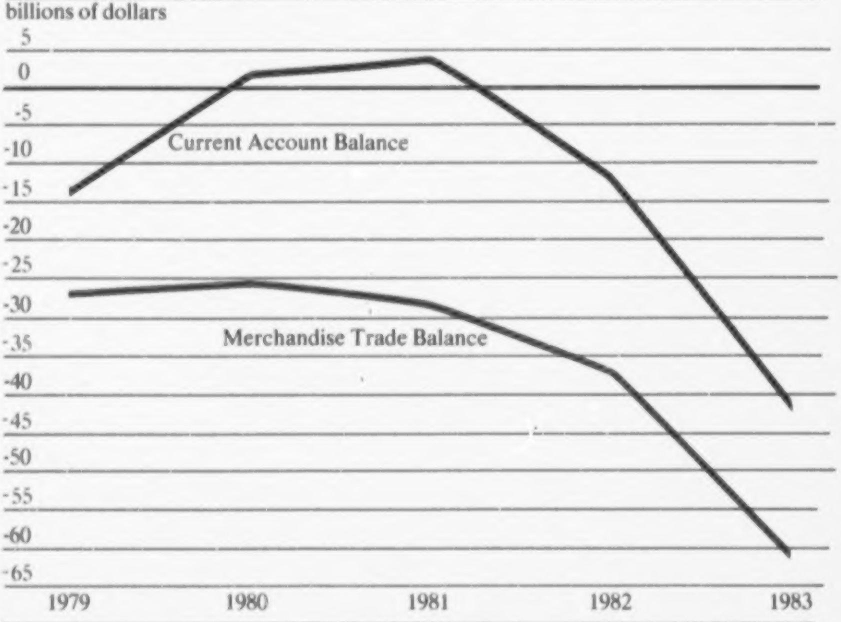
Current Account As might be expected, the U.S. current-account balance registered a record deficit in 1983, plummeting to $40.8 billion from $11.2 billion the year before. The 264 percent nosedive resulted from four quarters of constant declines—starting out with a $3.6 billion deficit in the first quarter, it rapidly mushroomed to $9.7 billion the next quarter and then registered red ink totals of $12.1 billion and $15.3 billion in the last two quarters. The rapidly deteriorating situation (the current account had been in surplus just two years before) raised a warning flag in the otherwise positive economic signals logged during 1983.

The American performance was again in sharp contrast to the Japanese showing. A record $21 billion current-account surplus was registered by Japan during the year, a threefold increase from 1982's $6.8 billion mark. The rapidly widening disparity in the two countries' performances had a negative impact on bilateral relations and the debate over international trade in the United States.

Capital Flows and Overall Balance Accounting practices covering the remaining balance-of-payments items differ in the United States and Japan, making entry-to-entry comparisons difficult.

Figures for direct foreign investment flows for both countries are available. They show the United States registering a sharply

U.S. Balance of Payments



Source: Department of Commerce

reduced net position of just $1.9 billion in comparison to 1982's inflows of $13.4 billion, while outflows from Japan shrank to $3.2 billion from $4.1 billion despite high interest rates abroad.

Other than direct foreign investment, though, the comparison is more difficult because, unlike Japan, U.S. figures lump together long- and short-term capital flows. But comparison is possible if overall flows of capital and currency are used. Japan continued to be a net lender to the world with its capital and currency outflows topping $17.6 billion in 1983, up from $16.5 billion in 1982. The United States registered a whopping turnaround from net lender to net borrower as its capital and currency aggregate showed a shift from a $30.7 billion outflow in 1982 to a $33.4 billion inflow in 1983. Such a large and rapid shift of capital flows, due mostly to a sharp cut in U.S. bank claims from $109 billion to $25 billion, brought cries from allies that the U.S. recovery was funded by foreign funds, hindering economic recovery in their countries.

Census Trade Data

Reflecting the continued strength of the dollar and the import-hungry American recovery, the overall merchandise trade deficit (measured on an f.a.s. basis instead of an f.o.b. basis used in balance-of-payments data) sank to a record $57.6 billion in 1983, a sharp 81 percent worsening from 1982's $31.8 billion. Records were also set for the largest monthly deficits during the year—the monthly red ink averaged almost $6 billion from July to December, with October reaching a record $7.8 billion.

Exports fell 5.5 percent for all of 1983, totaling $200.5 billion. Though this drop was smaller than 1982's 9.2 percent shrinkage, it nonetheless continued the worrisome contraction of U.S. exports. Experts pointed to the strength of the dollar and the failure of other economies to pull out of the recession as primary reasons for the continued slide of exports. On a monthly basis, exports started out at $17.4 billion, fell to $15.6 billion in May and only recovered to $17.2 billion by the end of the year. As a further indication of the weakness in exports, in only 4 of 12 months did the figure push above $17 billion, something it accomplished for 9 months in 1982. There was no trend evident either during the year as the total bobbed up and down, gaining as much as 9 percent and losing as much as 6 percent from month to month.

Imports grew 5.8 percent, totaling $269.9 billion on a seasonally adjusted customs value basis, reversing the downward trend of 1982 when they fell 6.8 percent to $254.9 billion. The strengthening recovery and the high dollar combined to make imports extremely competitive. Increased demand for energy generated by the recovery was still not enough to push up imports of oil from the previous year; instead they fell 11 percent to just $60.2 billion. The bottoming out of the recession was very clear from the monthly import figures which hit a low of $19 billion in February, then moved steadily upward until October ($24.8 billion) and then declined to $22.4 billion in December.

Trade by Country The continued recession of America's trading partners was revealed in increasing U.S. trade deficits with both the developed and developing countries. Continuing its tumble, the deficit with the developed countries grew to $29.5 billion, half again as large as 1982's $19.1 billion shortfall. While U.S. exports to this group grew by only $262 million (to $122.9 billion), its imports jumped $10.6 billion (reaching $152.3 billion), causing the sharp drop. The deficit with developing countries also widened by 82.1 percent to $29.9 billion, compared with 1982's $16.4 billion gap. In this case, expensive dollars and austere economic policies forced these countries to cut their purchases of U.S. goods by $10.3 billion to $72.4 billion, while the United States bought $3.2 billion more of their wares to supply its growing economy (a total of $102.3 billion). Reflecting the chill in East-West relations, the surplus with Communist bloc nations fell by 53.7 percent to $1.5 billion. The only good news showed up in U.S. trade with the Organization of Petroleum Exporting Countries (OPEC). The United States managed to reduce its trade deficit with the members of OPEC by $188 million (or 2.3 percent) to a $8.2 billion level. The decrease was caused by a drop in OPEC imports due to continued moderate oil prices, which in turn forced them to scale back on their foreign purchases.

The bilateral trade deficit with Japan grew at a faster rate in 1983 than in 1982 (16.3 percent versus 6.3 percent) but still more slowly than it did in 1981 (59.6 percent). This worsening was also much milder than the overall change in the U.S. trade deficit.

The $2.7 billion increase in the bilateral deficit to a record $19.5 billion was due to an increase in imports (which topped $41.4 billion) of $3.6 billion, coupled with only a $912 million increase in exports (hitting $21.9 billion). The influence of a strong dollar and a recovering American economy was surprisingly mild, with the trade deficit fluctuating between $4.7 and $4.3 billion a quarter for the first three quarters of the year before moving up to $6.1 billion in the fourth quarter. Despite the bilateral imbalance being the highest ever recorded by the United States, it played a relatively minor role in the overall trade balance picture, accounting for only one-tenth of the increased U.S. deficit.

The trade surplus with the European Community decreased nearly twice as much as its deficit with Japan increased during 1983, dropping $5 billion dollars to just $427 million. While the deficit with the United Kingdom fell $606 million to $1.8 billion, the deficit with West Germany increased $1.5 billion to $4 billion, and the surplus with the rest of the EC plunged $7.4 billion to just $3.1 billion. The main reason for this was not a burst of imports from the EC—which increased just $1.4 billion to $43.8 billion—but rather a contraction in exports of $3.6 billion, leaving them at a $44.3 billion level. The sluggish Community economy was a poor market for U.S. exports, which were also made less competitive because of the high dollar.

Unlike 1982, the United States' trade with Canada was not a major factor in the increased overall deficit. With exports to Canada up $4.5 billion and imports also up $5.6 billion, the U.S. deficit with its northern neighbor grew only 8.9 percent, hitting $13.9 billion. It is interesting to note that while the U.S.-Canada bilateral deficit was second in size only to the U.S.-Japan figure, there was no U.S. pressure on Canada to remedy the imbalance—in complete contrast to U.S.-Japan relations.

The trade balance with the developing countries reflected a complex interplay of economic forces. As a result of a 26.1 percent ($6.0 billion) drop in exports to $16.9 billion and a 19.7 percent ($6.1 billion) fall in imports to $25.1 billion, the trade deficit with the OPEC countries continued its downward trend for a third year, falling 2.3 percent to $8.2 billion. Reflecting problems with cartel discipline, U.S. bilateral trade balances with individual members fluctuated widely from 1982. The $438 million surplus with Venezuela became a $2.1 billion deficit, due not to increased purchases of Venezuelan oil (imports as a whole rose only $170 million), but rather to a precipitous drop in U.S. exports of $2.4 billion, as the country underwent economic adjustment policies. Trade with Saudi Arabia tilted even more in favor of the United States, as the 1982 $1.6 billion surplus jumped to $4.3 billion on the strength of a $3.8 billion decrease in imports and a smaller $1.1 billion decrease in exports.

The United States, therefore, had trade surpluses with five of the ten OPEC countries: Saudia Arabia, Iraq ($453 million, down from $807 million in 1982), Kuwait ($611 million, also down from 1982's $901 million), The United Arab Emirates (at $355 million, a turnaround from 1982's deficit of $931 million), and Libya ($190 million, also up from a 1982 deficit of $211 million). Trade deficits with the other five members shrank in one case (from $5.7 billion to $2.9 billion with Nigeria, due to a fall in imports of $3.3 billion) but rose in the rest, including Iran (from $463 million to $940 million), Algeria (from $1.8 billion to just under $3 billion), and Indonesia (dropping to $3.8 billion from $2.2 billion).

Trade with the non-OPEC developing countries was a major contributor to the widening of the United States' overall trade deficit for the second year in a row. The U.S. deficit with this trading group increased a whopping $13.7 billion (169.8 percent) to $21.7 billion from $8 billion in 1982. A combination of rising imports (totaling $77.3 billion, up 13.7 percent or $9.3 billion) and falling exports (down to $55.5 billion from 1982's $59.9 billion, a 7.3 percent drop) resulted in the huge jump. Caught in the grip of a debt crisis or in the grip of a continuing recession, most developing countries reduced their purchases of U.S. products by choice or necessity. On the other side of the coin, the strengthening American recovery provided better markets for exporters, but even then, the effect was uneven across the globe.

U.S. trade with 19 Latin American countries was less favorable than the previous year, with the U.S. trade deficit increasing 281.8 percent to $10.9 billion from $2.9 billion. Due to harsh economic readjustment programs and the high dollar, U.S. sales to this group fell 20.4 percent to just $19.8 billion. On the other hand, Latin American countries sold $30.7 billion worth of goods to the United States, an increase of 10.8 percent from 1982.

American purchases of South Asian countries' goods also grew more rapidly than exports to those countries (44.8 percent versus 6.5 percent), causing the American surplus to decrease (falling 70 percent to $272 million from $912 million). Another area that was able to latch on to the U.S. recovery was Southeast Asia—its exports to the United States jumped 20.9 percent to just under $33 billion, while buying just 6.7 percent more U.S. goods in return. As a consequence, the U.S. trade deficit with the area increased by $4.3 billion to $11.4 billion, a 61.4 percent hike.

Other areas were not able to ride the coattails of the U.S. recovery as reflected by bilateral trade figures. Imports from non-OPEC Middle Eastern countries increased only marginally (just 0.4 percent) while exports fell even more (dropping 8.4 percent), causing the U.S. surplus with this group to decline $336 million to $1.9 billion. Trade with Africa reveals the effects of bad weather and political instability—American exports to the continent fell 8.3 percent to $7.1 billion from $7.7 billion in 1982. Imports also declined $403 million (5.3 percent) to $7.1 billion, with the overall result being a tiny deficit of $17.9 million as opposed to a surplus of $226 million in 1982.

U.S. trade with non-market economies also took a beating in most cases during the year. U.S. exports declined 23 percent to $5.1 billion, and U.S. imports increased to $3.6 billion, a 9 percent rise. Together, these two trends forced the American surplus with the Communist bloc down to just $1.5 billion, a 54 percent decline.

For the first time since 1975, the United States ran up a trade deficit of $134 million with East European countries (excluding the Soviet Union). They cut back on purchases of U.S. goods (exports to almost every country in the group fell) in order to conserve hard currency, and pushed sales to the United States (up 24 percent from 1982) to pay back their debts.

Trade with China also moved into the red, to the tune of $54 million (as opposed to a surplus of $628 million the previous year). This was mostly due to sharp cutbacks in Chinese purchases of wheat and other agricultural products in retaliation for controls on their textile exports by the United States.

The trade surplus with the Soviet Union, at $1.7 billion, was responsible for the overall U.S. surplus with non-market economies. But even this figure was down, with U.S. exports to the U.S.S.R. falling 23 percent to $2 billion and imports rising to $341 million, almost double their 1982 level. The large Soviet purchases of grain in the second half of 1983 did not offset the sharp reduction in corn shipments. In addition, the U.S. bought large amounts of petroleum products.

Exports by Product The United States saw its exports decline in four out of five major categories during 1983, a small improvement over 1982's across-the-board drop. None of the decreases were of double-digit proportions (as two had been in 1982), and in general the rates of decline slowed.

Industrial supplies fell almost as much as they had in 1982, recording an 8.2 percent drop to $56.6 billion from 1982's already depressed level of $61.7 billion. The three subcategories all showed declines—agricultural supplies and materials fell 3 percent to $6.2 billion; fuels and lubricants tumbled to $9.9 billion, a 24.2 percent drop; and non-fuel materials shrank by $1.7 billion, or 4.1 percent, to $40.6 billion. Looking at individual products, coal and petroleum exports took a beating, dropping 32.2 and 19.6 percent, respectively, while nuclear fuels showed a 12.2 percent improvement. Both semifinished and finished iron and steel sales continued to spiral downward, with declines of 26.4 and 25.4 percent respectively. Nonferrous metals showed an improvement of 5.3 percent, totaling $4.8 billion, mostly on the strength of a 35.8 percent increase in exports of precious metals and a 7.3 percent rise in aluminum sales. Other metals, including copper, fell between 17 and 24 percent from the previous year due to depressed demand and resulting low prices. Finished and advanced metal manufactures (down 9.7 percent), lumber and paper (off just 0.4 percent from 1982), chemicals (down 3.3 percent), and textiles (dropping 16.6 percent) continued to experience contracting sales for the third straight year.

Next in line, exports of capital goods fell $5.5 billion (7.5 percent) to $67.3 billion, the second decline in as many years. The decline, though smaller than last year's 9.3 percent drop, reveals the continued problems with weak world demand and a high dollar experienced by some areas of the economy.

Faced with a world oil glut, exports of oil and drilling equipment plummeted 42.2 percent to just $3.1 billion, losing the 1982 gains and ending up at the lowest level in several years. Construction machinery exports as a whole declined 37.4 percent from 1982, with a 37.3 percent fall in excavation and paving machinery exports a major factor. Exports of nonelectric industrial machinery dropped 16.1 percent to $16.3 billion, led by a decline in sales of specialized industrial machinery of $3.1 billion or 6.1 percent. Exporters of agricultural machinery and equipment also saw their sales fall in 1983, earning only $1.5 billion, a drop of 18.2 percent from 1982. Shipments of electrical machinery were up an overall 1.8 percent to $13.2 billion, reflecting continued rapid growth of broadcasting and communications equipment (up 11 percent to $6.6 billion), marginal growth in telephone equipment (inching up 0.5 percent to $4.9 billion) and a steep decline in generating and transformer equipment (down 19.1 percent to $1.7 billion). Transportation equipment contributed a 4.3 percent gain, reaching $12.4 billion on the strength of a 10.2 percent increase in aircraft sales. Exports of vessels, however, dropped 26.3 percent in 1983. Exports of scientific and business equipment continued to improve, rising 6.6 percent overall to $17.5 billion, led by an 18.1 percent rise in the amount of electronic components exports to $11.0 billion, and a 1.7 percent increase in scientific and medical equipment exports to $2 billion. Other high-technology goods fell, however, with exports of photographic equipment, laboratory testing and control equipment and other business equipment dropping 17.5, 5.5 and 9.3 percent respectively.

1983 was a recovery year for American exports of automobiles—they were up $1.2 billion to $16.8 billion, a 7.5 percent gain over 1982. A 47 percent jump in exports of new assembled passenger cars to $4.2 billion was mainly responsible for the favorable showing, although exports of new unassembled cars were also up 24 percent to $8.2 million, and exports of auto parts and engines showed a 3.4 percent gain from 1982. On the downside were exports of used cars (off 31.6 percent to $42.8 million) and trucks, busses and special purpose vehicles (falling 20 percent to $2 billion). Increased trade with Canada accounted for practically all of the improvement, with exports increasing to $12.2 billion from 1982's $9.2 billion, a 33 percent increase. Passenger car exports to the rest of the world declined 28 percent to $4.6 billion.

The consumer goods category continued to decline, though at a slower rate than in 1982. Totaling $13.4 billion, 1983's level was 6 percent smaller than the previous year's $14.3 billion. Consumer durables sales fell 6 percent to $5.7 billion, due to declines in almost every component: household appliances down 17 percent; audio equipment off 14 percent; sports equipment down 7 percent; and miscellaneous manufactures off 15 percent. Sales of nondurables also dropped 4 percent from 1982, hitting just $6.6 billion, mostly due to falls in exports of printed matter (down 2 percent) and tobacco products (off 9 percent). On the other hand, exports of pharmaceuticals and medicines rose 9 percent to $2.6 billion.

The rapid decline of exports of foods and feeds, off by 17.2 percent in 1982, slowed considerably in 1983, coming in at just 1.3 percent. A 12.8 percent rise in exports of feed grains, including corn, and a 12.6 percent increase in animal feed sales were not enough to counterbalance a 5 percent drop in wheat sales, a 5 percent fall in soybean exports, a 9 percent fall in shipments of fruits and vegetables and an 8 percent reduction in exports of meat.

Imports by Product Imports began to rebound in 1983, showing gains in four of the five major categories. Imports of industrial materials and supplies, the largest component of American purchases, continued to drift downward, though again at a much reduced rate compared with 1982. This category declined $5.1 billion (4.5 percent) to just under $107 billion, just one-fourth the decrease of 1982 (16.8 percent). Purchases from non-industrialized nations declined 6.8 percent, while those from developed countries fell only 1.7 percent. Of import trade with developed countries, only that with Canada rose (up 7.3 percent), while that with the OECD area and Japan fell, off 5.7 and 20.7 percent, respectively.

A decline in the price of oil was again responsible for the overall drop in this category of imports, with imports of crude down 20 percent (falling to $36.8 billion from $45.9 billion). Even including purchases for the strategic petroleum reserve, U.S. daily consumption of crude dropped dramatically from 5.3 million barrels a day in 1982 to just 3.9 million barrels a day in 1983. Accompanying this drop in quantity, average unit price for crude oil fell 8.2 percent, translating into a total crude oil bill of $36.8 billion in 1983 versus $45.9 billion in 1982. Along with crude oil, imports of coal and gas and nuclear fuels were down 4.5 and 17.5 percent respectively. Imports of fuel oils and other petroleum products were up, however, increasing between 7 and 16 percent.

Imports of other industrial inputs rose, reflecting the growing U.S. recovery. Purchases of paper materials were up 6 percent on the strength of a 9 percent rise in newsprint imports. Imports of farm and nondurable inputs was up a strong 14 percent, with rises in all constituent categories including finished and unfinished textiles (up 10.8 and 27.9 percent respectively), industrial chemicals (up to $5 billion, a 24 percent increase) and fertilizers (rising 5 percent to $1.7 billion). Shipments of building materials rose a sharp 44 percent to $4.6 billion as the housing industry began to revive. Materials for durable goods production also jumped 18 percent, with miscellaneous nonferrous imports up 38 percent, major nonferrous inputs (aluminum, copper, tin, etc.) up 14 percent, semifinished iron and steel products up 12 percent, and steel mill products down 9 percent. Nondurable goods inputs showed a drastic reduction of 43 percent overall due to a 58 percent drop in imports of basic iron and steel inputs. Nonmetal inputs grew 11 percent, rounding out the industrial materials picture.

Reflecting the surge in consumer spending that propelled the U.S. economy out of the recession, imports of consumer goods turned around from 1982's 5.9 percent decrease, growing 22.5 percent to $44.9 billion. All three major components, nonmanufactured durables and nondurables, nondurable manufactures and durable manufactures rose, hitting $3.1 billion (a 19 percent increase), $19.1 billion (up 18 percent from 1982) and $22.7 billion (a 9 percent rise), respectively. The rise in nondurable manufactures reflects an across-the-board rise in products including textile goods (up 17 percent to $9.9 billion), medicines (jumping 22 percent to $1.2 billion), leather goods (hitting $3.2 billion, an increase of 18 percent), and rubber goods (up 3 percent to $1.2 billion). Imports of durables presented a spottier picture, although imports of most products did rise. Moving up were imports of furniture ($1.4 billion, up 25 percent), household appliances (rising 21 percent to $6.8 billion), glassware and porcelain (topping $1.3 billion, up 17 percent), photographic equipment and clocks (rising 12 percent each).

Imports of automobiles also enjoyed a large increase as pent-up consumer spending was released—up an overall 22.8 percent to $40.4 billion, right on the heels of 1982's 11.8 percent increase. Again, imports of every product rose: passenger cars up $3.3 billion (16.2 percent) to $23.6 billion, trucks and busses rising 13.5 percent to $5.9 billion, and engines and chassis rocketing 46 percent to $11.3 billion. With a fourth year of voluntary restraints in effect on the major exporter to the American market, the increase reflected a continued trend toward higher unit values ($5,334 in 1983 versus $5,278 in 1982), although volume also increased slightly as imports of light trucks revived (1.871 million units entered the United States in 1983 against 1.801 million units in 1982).

The capital goods component of imports rose 15.6 percent, going from $35.4 billion in 1982 to $40.9 billion last year. Overall imports of machinery were up 18 percent to $37.5 billion, while imports of transport equipment fell 7.2 percent to $3.4 billion.

Growth of electrical and electronic parts was a strong 22 percent, translating into a $2.4 billion rise to a $12.1 billion level—nearly triple the increase seen in 1982, and the main reason for the 18 percent gain in imports of electric machinery, which hit $37.5 billion. Purchases of nonelectric machinery products also increased 16 percent overall, going from $21.2 billion to $24.6 billion in 1983. Under this heading, imports of machine tools continued to fall, dropping $400 million dollars to $1.5 billion (a 21 percent decline from 1982). Specialized industrial machinery shipments reversed 1982's negative trend and moved up 22 percent to $3.7 billion in 1983. The pumps and engines subcategory showed a slight decline of 7 percent to just $5.1 billion.

Mainly responsible for the overall increase was imports of business machines, which went from 30 percent growth in 1982 to 44.5 percent growth in 1983, topping $8.9 billion. The decline in transport equipment sales was due to a 14 percent fall in aircraft buys, going from $3.4 billion to $2.9 billion, which overwhelmed a 120 percent increase in purchases of railway equipment (up to $422 million from just $191 million in 1982).

The final category of imports, foods and feeds, showed a moderate increase of 6.2 percent, reaching $18.2 billion versus $17.1 billion in 1982. Imports of staples such as coffee and sugar rose just under 2 percent to $4 billion from a combination of increased volume but slightly lower prices. Other food products showed increases: cattle rose 4.2 percent to $300 million; fish and shellfish jumped 14.5 percent to $3.6 billion; vegetables increased 5 percent to $1.1 billion; fruits were up 4 percent at $1.5 billion; whiskey rose 5 percent to $2.6 billion; and feedstuffs gained $72 million (35 percent) to top $279 million. These increases caused the foods and beverages subcategory to rise 8 percent, or $998 million, to $14.2 billion.

Foreign Direct Investment

Foreign direct investment data always appear with a considerable lag, so what follows covers 1982. During that year, the total foreign direct investment of U.S. firms actually dropped by $5 billion, totaling $221 billion at year end. This was the result of a $2.3 billion drop in investment in developed countries and $3.2 billion in developing countries. Total investment was down in all major industry categories except petroleum. This was the first time since just after the Second World War in which the total value of U.S. foreign direct investment actually fell.

However, the total value of U.S. foreign investment was still high. Of the $221 billion total, the bulk was invested in developed countries ($163 billion), with the developing countries rather far behind ($53 billion). Investment in Japan did not join in the decline, and developments there are discussed in more detail in Part VI. Europe and Canada remained the major destinations of U.S. direct investment, accounting for $99 billion and $45 billion, respectively, of the year-end total.

International Economic Policy

Progress during 1983 on foreign economic legislation was hampered by shifting political alliances and by the difficult decisions facing lawmakers in resolving conflicts between policy goals and private interests. Eximbank funding, revisions of the Export Administration Act and International Monetary Fund (IMF) replenishment measures all stirred controversy in Congress as the administration sought to further the ideological course it began in 1981. Some protectionist measures made significant progress during the session, particularly the domestic content proposal backed by the United Auto Workers (UAW) union. From the standpoint of bilateral economic relations, it was not an encouraging year, with the increased visibility of protectionism and antagonism directed against Japan, even though none of this legislation passed.

Shifting Political Scene

In its first two years in office, the Reagan administration achieved what many observers felt was a surprising series of legislative victories, including social spending cuts, defense program increases and other conservative Republican agenda items. For the first two years, the Democratic Party was disorganized and unable to respond effectively.

The tide began to turn with the 1982 elections. Democrats made a strong showing, picking up several seats in the House and demonstrating that issues upon which the party traditionally had capitalized could still be damaging to the Republicans The Democratic performance forced many congressmen, particularly Republicans, to reconsider party allegiance and opt for the more pragmatic goal of winning reelection in 1984. With 13 Republican senatorial incumbents up for election, it soon became clear that the dramatic gains of 1980 could be lost if the president's goals were pursued too stridently.

These developments influenced foreign economic policy debates in Congress and affected issues between the United States and Japan in 1983. With the Republican working majorities of the previous Congress weakened, individual legislators were forced to turn their attention to the domestic implications of foreign policy disputes, with one eye always on 1984. Promoting bills simply on their international merits became more difficult. The administration, although aware of its reduced strength in Congress, was determined nevertheless to continue policies initiated during the first two years aimed at reducing social spending while increasing defense expenditures. Its agenda was clear, but its ability to further it was significantly reduced.

The Democratic Party, led by House Speaker Thomas O'Neill, used legislative issues pending before Congress to reassert positions that had seemingly been discredited just a few years earlier. Speaker O'Neill emphasized the "fairness" issue and promoted legislation which, even though doomed in the Republican-controlled Senate, would set the stage for the 1984 elections. In the process, several foreign policy and economic measures became inextricably linked with purely domestic political concerns. In response, the administration emphasized compromise and bipartisanship when several key legislative proposals faced crucial votes. In such cases the administration appealed to broader concerns to secure passage. Without functional majorities in both houses, the administration had to rely more on the prestige of the presidency to persuade legislators to support its proposals.

Another significant trend for 1983 in Congress was the changing authority of congressional committees over international trade and economic matters. The Energy and Commerce Committee, chaired by Rep. John Dingell (D, Mich.), continued to assert jurisdiction over local content legislation and related bills at the expense of the House Ways and Means Committee and particularly its International Trade Subcommittee, chaired by Rep. Sam Gibbons (D, Fla.). The House Banking Committee also played a more prominent role in international monetary legislation due to its role in the IMF funding bill.

The House Foreign Affairs Committee also was exposed to change because of the death of its chairman, Rep. Clement Zablocki (D, Wisc.). Zablocki had allowed his subcommittee chairmen flexibility in initiating action on a variety of issues and exerted his authority at the committee level. That was likely to change, though not until 1984.

Trade Bills in Congress

During the year a number of trade-related bills were pending before Congress, many of which would have had the effect of restricting international trade. These bills involved reciprocity, revision of the Export Administration Act, trade adjustment assistance, local content, export promotion and the IMF funding controversy.

Reciprocity What was once the hottest trade issue in Congress took a back seat to other concerns in 1983. Sen. John Danforth's (R, Mo.) reciprocity bill, S. 144, was approved in the Senate and attached to a measure repealing withholding on interest and dividends. Lack of House support for the reciprocity concept forced Senate conferees to drop the provisions from the withholding bill, but not before the House promised to hold hearings on the subject.

Those developments ended the prospects for administration-backed changes in existing trade laws to expand the authority of the U.S. Trade Representative to negotiate in new areas, including services trade and reciprocal market access. On September 27, The House Ways and Means Committee reported H.R. 1571, which would expand the executive's retaliatory authority on questions of reciprocal market access, but the bill did not reach the floor before Congress adjourned. Another reciprocity bill, H.R. 2848, was reported unfavorably by the committee prior to the end of the session.

Reciprocity was the victim of a trend which emphasized more industry-specific bills as election year fevers rose. The Danforth proposal—which first emerged in response to criticism of Japan's closed markets—lost momentum as administration-supported changes transformed the bill from a potentially protectionist vehicle into moderate legislation aimed at addressing changes in the international trade arena. As the agenda in Congress became more politicized, support for broader measures faded while specific "solutions" to industry problems became more popular.

Export Administration Act One of the most controversial and complicated trade bills of the year was the extension of the executive's authority to control exports of sensitive technology to other countries. The Reagan administration, obsessed with the leakage of sophisticated technology to the Soviet Union, sought strengthened controls while the American business community, concerned with the possible loss of sales and U.S. credibility among overseas buyers as a reliable supplier, sought relaxed controls. Japan was caught in the issue due to its economic ties with the Soviet Union and its reputation among many U.S. officials as a security sieve.

Alexander Towbridge, president of the American Manufacturers Association, set the tone for industry positions in congressional hearings early in the year. Towbridge urged limiting executive discretionary authority in instituting controls on exports already under contract or involving extraterritoriality. He claimed that many previous reforms, such as mandated presidential-congressional consultations, had been ignored in practice and that American businesses were losing customers as a result. To opponents of strengthened controls, the most dramatic demonstration of capricious executive action was the administration's attempt to halt previously contracted shipments of American products to European buyers for ultimate use in constructing the Siberian gas pipeline.

The House approved a bill on October 27 (H.R. 3231) to modify existing controls and allow exporters to forego licensing for shipments to Western European nations and Japan. The Senate took a stricter line, as evidenced by S. 969, sponsored by Sen. Jake Garn (R, Utah). The Garn bill addressed criticism that the Department of Commerce was administering the existing law ineffectively and was constrained by inherent bureaucratic conflicts in both promoting and restricting exports to other countries. The legislation, which would have tightened controls while establishing a separate Office of Strategic Trade, was approved by the Banking Committee on May 23 but never reached the floor for a vote.

The Senate's inability to produce a measure which could be reconciled with H.R. 3231 necessitated congressional approval of legislation to temporarily extend the president's export control powers, which otherwise would have expired on September 30. Two extensions were approved, the first just before the scheduled expiration date and the second in the closing hours of the session. The temporary controls were authorized until February 29, 1984.

A side issue relevant to U.S.-Japan relations that delayed the progress of the Export Administration Act was the question of Alaskan oil exports. The previous bill had outlawed exports of Alaskan oil under certain conditions. Arguing that similar prohibitions existed in other active statutes, the administration sought a bill free of the ban. Sen. Frank Murkowski (R, Alaska) at one point threatened to filibuster against the act if it contained a clause banning Alaskan oil exports. Maritime interests, fearful that the move was the first of a series to eliminate all bans on Alaskan oil exports, fought the deletion of the prohibition, insisting that such provisions were necessary to protect American consumers and provide energy security.

Trade Adjustment Assistance The administration was forced to concede to congressional pressure to extend the Trade Adjustment Assistance program because of the bill's political implications. Initially opposed to continuing the program, the White House accepted a two-year extension (PL 98-120) which was cleared on September 30. The original House version, which called for an expanded assistance effort, was one of a series of measures that the Democratic-controlled House said demonstrated the issue of fairness and the need for federal spending during periods of high unemployment.

Department of Trade Although Commerce Secretary Malcolm Baldrige denied such suggestions, the Department of Trade bill promoted by the administration in 1983 smacked of a "do as Japan does" approach and sought to rationalize U.S. trade policy by reorganizing the federal bureaucracy. With one eye on Japan's Ministry of International Trade and Industry (MITI), the bill's supporters suggested that by consolidating its trade bureaucracy, the United States could increase international competitiveness and enforce existing trade laws more effectively.

The chief trade reorganization bill was S. 121, sponsored by Sen. William Roth (R, Del.). Supported by the administration, it would combine the Office of the U.S. Trade Representative with trade-related offices in the Department of Commerce into a separate Department of International Trade and Industry (DITI). The bill was reported by the Senate Government Affairs Committee on October 18, but did not reach the floor for a vote. Progress of counterpart bills in the House was delayed by Democratic proposals to include vague industrial policy provisions in the legislation.

Local Content The House of Representatives approved H.R. 1234, the local content bill sponsored by Rep. Richard Ottinger (D, N.Y.), by a 219-199 vote on November 3. The vote came just two days after MITI announced an extension of "voluntary" restraints on Japan's automobile exports to the United States for a fourth year beginning in April 1984 (considered in Part VI of this yearbook). Local content was the most important legislative item pending in Congress for the United Auto Workers. The UAW made the bill the sole standard for candidate endorsements in the 1982 elections. Together with Ford Motor Co. and Chrysler Corp., the union lobbied heavily to secure House passage before the end of the year to allow as much time as possible to force Senate consideration of the bill.

Trade Remedies During the year consideration began of various proposals to amend existing trade statutes to facilitate import relief procedures. Supporters of revised standards offered several criticisms of U.S. trade relief laws and processes, among them the following:

- Standards for proving injury were too stiff.
- The executive branch had too much discretionary authority in determining appropriate responses to unfair foreign trade practices.
- The cost of filing import relief petitions was prohibitively high.
- Procedures for securing relief were too time consuming. By the time solutions were implemented, irreparable damage was often already done to the affected domestic industry.
- Existing laws did not address industrial targeting practices.

While supporters of existing practices admitted that administrative procedures could be expedited, they nevertheless rejected proposals to liberalize the relief provisions of the 1974 Trade Act, fearing that standards for establishing injury could become so loose as to be meaningless. Virtually any complainant, they claimed, could qualify for relief should the Trade Act be amended further. Also rejected by administration officials at hearings held early in the year was the "threat of injury" concept as grounds for import relief. "Threat of injury," some contended, could be confused with normal marketplace competition and could easily become a severely protectionist mechanism if codified.

DISC Replacement The White House introduced proposals in 1983 to replace the Domestic International Sales Corporation (DISC), a controversial corporate device which attempted to stimulate American exports by allowing deferral of taxes on export income. DISC had been ruled by the General Agreement on Tariffs and Trade to be an illegal subsidy under Article 16 of the agreement.

The Cabinet Council on Commerce and Trade on March 2 approved a DISC substitute which would have allowed the establishment of partially tax-exempt corporations based abroad through which export sales could be made. Income from export sales would be allocated to a Foreign Sales Corporation (FSC) and a related American company using "arm's length" procedures described in the Internal Revenue Code, or one of two alternative formulas proposed by the administration. The plan was not well received by the business community, which criticized it as a potentially burdensome and costly alternative to the DISC. The most attractive feature of the DISC—immediate earnings potential through exempting income from taxes—would be diluted under the proposal.

Two other bills sought revisions of the DISC in 1983. S-28, the Export Sales Corporation Act, was introduced by Sen. David Boren (D, Okla.), while the DISC Revision Act, H.R. 1673, was offered by Rep. Guy Vander Jagt (R, Mich.). Neither bill made significant progress during the session.

IMF Funding One of the most controversial measures before Congress was the authorization to increase the U.S. contribution to the International Monetary Fund by $8.4 billion to help offset credit problems facing several developing countries. The measure's opponents decried the bill as a bailout for big banks, overextended because of huge loans to poor credit risks. Supporters countered by emphasizing the importance of American commitments to international lending and development institutions.

The IMF funding bill, approved on November 18, was an example of the administration's decision to rely on the prestige of the presidency to offset the loss of support that had protected it in the previous two years. Bipartisan opposition to the bill was strong. Although a back-door approach ultimately was necessary to get the bill through Congress, the administration was able to secure passage through moral suasion in spite of divisions within its own party and objections of key Democratic leaders. In addition to IMF funding, the bill extended Export-Import Bank authorization until September 30, 1986. It also reauthorized the Asian Development Bank and the Inter-American Development Bank, and extended the Defense Production Act until March 30, 1984.

Part VI · U.S.-Japan Relations

Overview

The year should have been a good one for bilateral relations. The Reagan administration was in its third year and had accomplished at least some of its initial negotiating goals with Japan. The third year of the Carter administration brought with it a significant improvement in relations for that reason. In addition, the rapid improvement of the U.S. economy and the beginning of global expansion might have been expected to erase some contentious trade issues.

To some extent these factors did generate an improvement, although a principal reason was the temporary lull resulting from the Japanese elections. Moreover, part of the cost of peace was continued protection for the U.S. auto industry and restrictive trade measures against some other foreign products. The year ended with many issues still unresolved, with a yen/dollar relationship that gave a competitive advantage to Japanese products and helped generate a rapidly rising Japanese trade surplus, and with an upcoming election that is guaranteed to put pressure on Japan.

The actual course of meetings, negotiations and settlements during the year was active. At the highest levels, relations were marked by three important summit meetings—the Nakasone trip to Washington in January, the industrial nation summit at Williamsburg in June and the Reagan trip to Tokyo in November. These three occasions served to cement personal ties between the two leaders and forced the settlement of some issues. Most of these issues easily separate into questions of access to the markets of one country or the other, but one development during the year touched more generally on bilateral ties—the question of industrial policy. As in previous years, defense issues were also on the agenda, focusing in 1983 on the technology transfer question.

Industrial Policy

Industrial policy became a major issue during the year, drawing support from those in the United States who were looking for either improved access to Japanese markets or for protection in U.S. markets from Japanese products believed to benefit from government aid. The debate was joined by groups asking whether the United States should have a stronger industrial policy. On both fronts, the issue was marked by a series of congressional hearings, bilateral government discussions at the working level, and endless reports and position papers. Part of the reason for the activity was the perception that the U.S. economy was doing badly, an assumption invalidated by the strong economic recovery.

The only government decision involving industrial policies during the year came on the Houdaille case, in which the machine-tool maker alleged that the Japanese government unfairly aided the machine-tool industry. In rejecting Houdaille's request for denial of investment tax credits to firms purchasing Japanese-made machine tools, the administration signaled that it was not yet ready to use industrial policy arguments as a basis for providing protection from imports. Bilateral discussions continued throughout the year, and while the administration was not pleased with all it saw in Japanese government actions, it continued to resist supporting protectionism.

Market Access in Japan

When the Reagan administration took office, greater access for American goods in Japan was to be the hallmark of its bilateral economic policy. But the rough way in which those issues were handled, combined with Japanese intransigence in making concessions that Washington would accept as meaningful, resulted in a rapid deterioration of official relations. During 1983, pressure on many of these same issues continued, and some progress was achieved.

With a new prime minister anxious to cement personal ties with Washington as early as possible, Japan announced a series of unilateral actions at the end of December. The first step was a long list of tariff cuts recommended by the Tariff Council, a government advisory group. In January the government issued other specific tariff concessions: a promise of action to further ease customs procedures, product standards and testing criteria; relaxation of import quotas on certain agricultural products; an advisory council to work with the Office of Trade Ombudsman (OTO); a new study that would look at some 30 laws dealing with import testing and certification procedures; and another round of action on liberalizing access to the domestic cigarette market. These were considered in some detail in Part IV.

This package, the third in a year, was generally applauded by the United States and may have helped to smooth the prime minister's reception in Washington. Of the items included, the United States continued to press Japan on the standards legislation, and by April the Japanese government was ready to submit its omnibus bill to the Diet amending 16 laws in such areas as pharmaceuticals, chemicals, agricultural products, natural gas, consumer electric appliances and automotive products. Enactment later in the year represented an important action on a problem that had been troubling the United States for a long time.

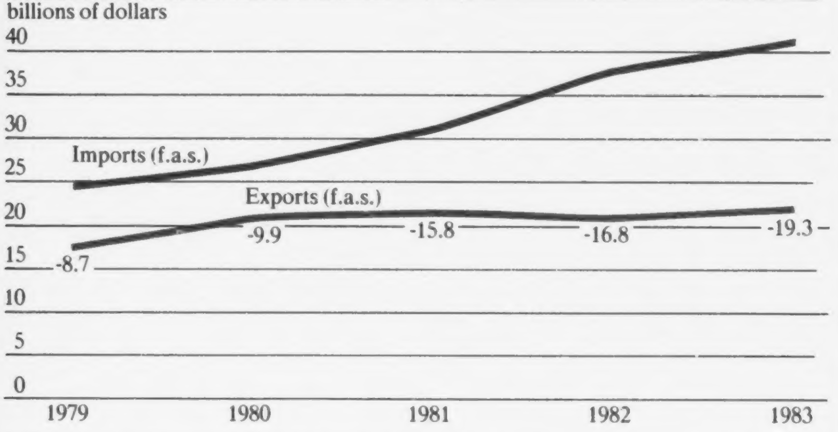
On the other hand, Japan passed a revised version of the Depressed Industries Law in May, aimed at bringing about coordinated cutbacks in designated depressed industries as well as encouraging consolidation of production or sales in some of these industries. This brought renewed concern from the United States about possible import restrictions as part of Japanese government actions on the affected products.

Over the course of the summer, it was becoming evident that the Reagan administration was evolving a more coordinated approach to trade issues. This did not mean that pressure on Japan would come to an end, but there were signs that the rhetoric had been toned down.

As the fall bargaining season started, a number of important issues remained to be solved. The president's upcoming trip to Tokyo provided a peg upon which to hang these issues. The response from Japan came in the form of the October package of concessions (detailed in Part IV) that provided only limited action on many of the points of concern to the United States. A more significant concession, though, was the extension of auto restraints for another year. A joint communique on internationalization of Japanese capital markets was issued as well. It, too, was tied to the summit meeting. After the president's trip, the bargaining season effectively came to an end with the beginning of the Japanese election campaign.

Discussion of specific issues included commercial aviation, agriculture, high technology trade, procurement by Nippon Telegraph and Telephone Public Corp. (NTT) and (once again) aluminum baseball bats. On some matters, such as NTT, little action took place during the year. Publicly dismayed over the limited purchases made to date under the original procurement agreement, the administration questioned the value of its renewal, which had to be decided by the end of the year. Just prior to the expiration of the agreement at the end of December, the two sides settled on a three-month extension; final agreement was reached after the first of the year.

Bilateral Trade



Source: Department of Commerce

Agriculture remained another major stumbling block. Negotiations on beef and citrus quotas had been broken off in October 1982 and were not resumed until April 1983. Even then, little progress was made. Equally fruitless were the talks held in September, and thereafter Japan was in no position to make a decision because of the upcoming election. However, the March 1984 expiration of the existing agreement meant that once the election was over, pressure would resume.

Waiting in the wings were several new areas, including communications satellites, value-added networks and proprietary software rights, although these did not really emerge until 1984. Financial markets also represented a new area of bilateral focus, , marked by the November agreement laying out possible Japanese actions to further liberalize foreign access to the nation's capital markets.

Market Access in the United States

At the same time the U.S. government was pressing Japan for further market access, this country continued to contemplate or even impose measures to provide import protection. The Reagan administration came to office intending to follow trade-expansionary policies, but it failed to avoid protectionism on a number of highly visible products. Most importantly, it agreed to the continuation of automobile restraints. When initiated in the spring of 1981, this curb was understood to have protectionist implications. However, its renewal in 1982 and 1983 seemed almost automatic. For fiscal 1983, Japan announced in February that it would continue the restraints at the original level. Then, fearful of domestic content legislation and presidential election campaign pressures, it agreed to an extension in fiscal 1984 just prior to President Reagan's trip to Japan in November. Nevertheless, the House promptly responded by passing domestic content legislation for the second year in a row.

Automobiles represented the single largest Japanese export to the United States, but they were not the only product area in which protectionist solutions prevailed. During the year, guidelines under the new highway/public transit law were announced that substantially increased the breadth of protection granted to American producers of steel, cement and other materials in federally funded transportation construction projects. In addition, high duties were levied on large motorcycles to protect Harley-Davidson Motor Co.; Japan's fishing quota within the U.S. 200-mile limit was cut; Hitachi, Ltd. was found guilty of industrial espionage in the United States; the machine-tool industry lobbied for protection; Japan was snared into restrictions on specialty steel (resulting from a case in which the Japanese were not even a target); the long case on color televisions continued; and protection for U.S. textile makers restricted imports, including those from Japan.

During the year there was some discussion of Alaskan oil exports to Japan and the negative impact of the unitary tax system. Neither of these issues progressed very far, however.

Defense

On the defense front, there was little change. The United States continued to press Japan to assume a stronger defense posture; Tokyo cited domestic pressures limiting its ability to respond. Washington, however, seemed to recognize that Prime Minister Yasuhiro Nakasone was the most favorably disposed executive it was likely to face in Japan.

The one important accomplishment for the year was the signing of an agreement on military technology transfers—an item that the United States had been pushing for some time. A mutually acceptable agreement was reached in November just prior to the president's arrival in Tokyo. While observers felt that Japan had little military technology that the United States would be interested in, the agreement had important symbolic value since Japan was often seen as enjoying a free ride on defense.

The Industrial Policy Flap

During 1983, industrial policy became a focal point of interest in Washington. As part of that debate, what Japan was doing received considerable publicity—both positive and critical—as an example of a clearly defined and active industrial policy. While only one trade case related directly to the industrial policy question, it involved congressional complaints, official bilateral discussions and various reports and statements by Americans and Japanese.

The Debate and Actors

Why did industrial policy in Japan become a controversial topic? Basically, the discussion was essentially a question about policy formulation in the United States. Three distinct groups were involved in the process: one espousing protectionist actions against foreign countries because of their industrial policies; a second that advocated adoption of Japan's policies at home; and a small but growing number that expressed concern about following either route.

Specialists in the United States have been studying the Japanese economy for many years, but the interest in industrial policies was a recent development. The group that was the most influential in shaping the debate in the early phases included those American industries and companies that were interested in protection from competing imports from Japan on the grounds that targeted assistance to particular industries gave Japanese products an unfair advantage in international competition.

The interest of this group stemmed from the fact that the concept of free trade remains a strong ideology in the United States, so that protectionist departures must be justified by what are described as "unfair" actions by foreign competitors. The need to demonstrate unfair foreign practices led to a succession of arguments alleging that Japan was unfair, including charges of cheap labor (in the 1950s), dumping, manipulation to keep the yen undervalued, and the sinister-sounding "Japan Inc." label of the early 1970s. Industrial policy, embodied in the word "targeting," was only the latest of these allegations, brought up as earlier ones lost their luster.

On the other side were those individuals and companies whose interest was in promoting a more active and coordinated federal government presence in industrial development in the United States. To that end, they turned to Japan as a shining example of what ought to be done in the area of industrial policy. Because the Reagan administration had a strong ideological bent against government intervention in the marketplace, the idea was not well received. However, some Democratic members of Congress embraced the idea and some of the arguments were used by protectionists, since both groups basically believed in the efficacy of Japanese industrial policy.

However, by the end of the year, the popular image was shifting somewhat as specialists on the Japanese economy and others involved in the domestic policy debate responded to what they preceived to be excesses or exaggerations by both sides. The members of this group began to testify before Congress during the summer and were pressing their case in publications later in the year. They argued that industrial policy was not the key to Japan's postwar economic success; other factors were also involved, and many government policies were less effective than imagined.

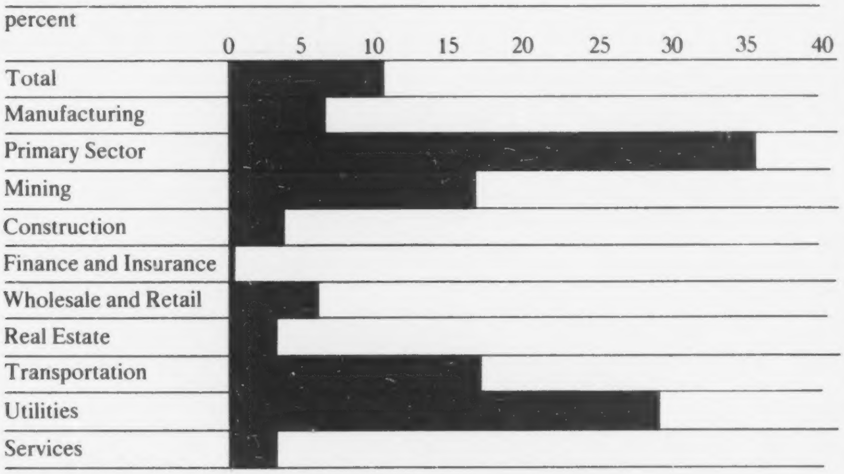
Commerce Department Report

The first action in the year was a report released by the Department of Commerce on the role of Japan's industrial policy in promoting high technology industries. It considered the "pervasive" array of policy instruments used to promote targeted industries, amplifying the description with case studies of the computer and aircraft industries. Coordination within the government, between the government and industry, and between firms was considered by the study to be an important mechanism for creating, developing support for, and implementing industrial policy. Singled out for particular attention was coordination in research and development.

The second category of policy tools examined was financial assistance. While many Americans had previously tended to highlight these financial incentives as the pivotal element in Japan's industrial policy, the Commerce Department study concluded that the Ministry of International Trade and Industry's (MITI) ability to influence the attitudes and decisions of the business community and develop a consensus with it was a more powerful weapon.

These conclusions clearly put the Commerce Department in the camp of those attributing great importance to Japan's industrial policies. However, the report was certainly open to criticism, for example, by ignoring the fact that Japanese high-technology companies were funding most of their research and development themselves.

Government Loans to Industry in Japan
ratio to total bank loans to each industry-1982



Source: Bank of Japan

Congressional Pressure

Congressional activity centered on a lengthy series of hearings before the House Ways and Means Subcommittee on Trade as part of its consideration of changes in trade remedy laws. At the initial round of hearings in March, which included consideration of industry requests to streamline procedures and ease the burden of proof in trade cases, Motorola, Inc. chairman Robert Galvin devoted much of his testimony to the subject of Japan's industrial "targeting" practices. He contended that the Japanese government had undertaken various measures to create a "riskless" environment for business.

Late in March, industrial targeting was the subject before the energy and commerce subcommittee in the House. Commerce Secretary Malcolm Baldrige discussed the issue, pointing out the difficulties in devising an appropriate legal remedy to foreign targeting practices and opposing suggestions for a stronger industrial policy in the United States.

In April, the trade subcommittee continued to rail against Japan's alleged industrial targeting practices during its second hearing on U.S.-Japan trade relations. Subcommittee chairman Sam Gibbons (D, Fla.) charged that the United States needed to signal Japan that it would not tolerate targeting measures on the grounds that they amounted to a bounty for particular industries. The administration remained sympathetic but cautious. Under Secretary of Commerce Lionel Olmer noted that Japanese practices were not unfair in the traditional sense, but that targeting did raise some serious issues.

Shortly thereafter, the Houdaille case (discussed below) was turned down, angering Mr. Gibbons. In response to accusations about undercutting U.S. trade laws, Deputy United States Trade Representative Michael Smith insisted that the White House intended to take appropriate action where targeting affected trade flows. However, he maintained that no new legislation was necessary to deal with foreign targeting. This did not stop the subcommittee from considering possible changes in trade law to deal with the issue. Mr. Gibbons asked the International Trade Commission (ITC) to produce a study of foreign industrial targeting and its implications for the future competitiveness of U.S. industries (discussed below).

During the summer, the Joint Economic Committee joined the parade. In July, it heard testimony from a panel of experts on the Japanese economy, who assured the committee that Japanese-style industrial policies would not work in the United

States. While it was agreed that Japan's industrial policies had been generally beneficial to the Japanese economy, the experts noted that many myths and misinterpretations had arisen concerning their role and efficacy.

This flurry of hearings died down later in the year. Congress remained divided over whether foreign countries should be punished for having industrial policies, or whether the United States should more formally pursue one. Nevertheless, altering the trade rules in order to penalize foreigners, and in particular Japan, was a strong strand of the discussion.

The MITI Position

As the pressure from the United States became more evident, Minister of International Trade and Industry Sadanori Yamanaka offically rebutted charges leveled against Japan's industrial policies in April. All states, he pointed out, practice a wide variety of industrial policies, albeit under different names and in different forms. He argued that Japan's industrial policies were intended to meet the needs of an industrially advanced society by encouraging a technology-intensive industrial structure based on the importance of the private sector and the need to survive a competitive world marketplace. He noted that both Europe (with its nationalized industries and enormous sums to subsidize high technology companies) and the United States (through R&D support and NASA) have industrial policies.

Frontier technologies, Mr. Yamanaka said, were essential to revitalizing the global economy and expanding the scope of economic activity for people everywhere. However, he did stress that the government's role should be restricted to those areas where, despite strong social need, the long lead times, enormous funding requirements, and high-risk nature of the work make it impossible to expect the private sector to undertake the necessary research. He maintained that Japan's industrial policies conformed to that principle.

To deal with trade friction in high technology fields, he urged that international technological exchanges, foreign capital investments, and cooperation among high technology companies should be encouraged. All nations should set their sights on coexistence and prosperity, he said. While these remarks were intended to defuse criticism of Japan, they were not successful.

The Houdaille Decision

For a year the administration had been facing a decision on a petition filed by Houdaille Industries Inc. The petition claimed that a little-known tax provision should be applied to deny tax breaks to American firms that were buying Japanese-made machining centers and numerically controlled punching machines. After endless meetings and debates, the administration announced on April 22 that the petition had been rejected.

At first, the novelty and complexity of the issues raised by Houdaille slowed the decisionmaking process. Later, a split within the administration's top ranks prevented policymakers from agreeing on a course of action. President Reagan finally had to step in and make the decision to turn down Houdaille's request. Unable to accept the decision with good grace, counsel for Houdaille endeavored during the summer to inspire stories in the press about the possibility that the Japanese government had unfairly lobbied the president at the last minute to overturn what would otherwise have been a decision at least partly favorable to Houdaille. These stories were denounced by both governments.

The Houdaille complaint had struck a responsive chord in Washington, particularly at the Office of the United States Trade Representative (USTR) and the Commerce Department. Top officials in both agencies were anxious to document how Japan's targeting policies hurt competitors in other countries and were casting around for some approach other than the usual trade remedies. At the same time, though, USTR and Commerce officials had reservations about the accuracy and relevance of Houdaille's allegations.

High-level officials in the State and Treasury Departments as well as in the Office of Management and Budget and the Council of Economic Advisers were even more skeptical about the validity of the cartelization and subsidization charges. Moreover, they saw serious drawbacks to a favorable ruling on the case since it could open the floodgates to complaints from manufacturers in other industries threatened by foreign competition.

For these reasons, Reagan administration policymakers decided informally during the winter to reject the idea of suspending tax breaks on purchases of machine tools made in Japan. They deadlocked, however, on the advisability of instituting an investigation of the impact of Japanese machine-tool exports on American producers under conventional U.S. trade statutes. Meanwhile, American trade negotiators broached the possibility of voluntary machine-tool export restraints to the Japanese government, but Tokyo was unwilling to bail the administration out of its political dilemma this way.

In a face-saving gesture, the U.S. government coupled rejection of the Houdaille petition with an announcement that Japanese government, industry and trade officials were willing to sit down with their American counterparts and discuss targeting. USTR William Brock and MITI Minister Yamanaka agreed to set up a committee on industry-related policies and their effects on trade. The outcome of this committee is considered below.

Bilateral Discussions

The newly established bilateral industry policy committee was headed by MITI Vice Minister for International Affairs Kunio Komatsu and Deputy United States Trade Representative Michael Smith. At the first meeting in May, the Japanese government argued that its industrial policies were not designed to damage foreign trading partners or discourage free competition, but to change domestic industrial structure in order to guide the growth of certain industries and assist in the contraction of those sectors in decline.

Later in May, Secretary of Commerce Baldrige sounded a conciliatory note in discussing his own meetings in Tokyo. He acknowledged, for example, that any government has the right to speed the growth of domestic industries, while cautioning that objections could arise if these promotional policies produced increased market share for the targeted industries. He also stressed that Japan was not being singled out on the targeting issue.

The committee on industrial policy continued to meet but did not reach any definitive conclusions. The U.S. side pressed Japan for more details on the MITI "visions" and the policy of administrative guidance. The Japanese, for their part, pressed the United States on the Department of Defense R&D programs and the activities of the National Aeronautics and Space Administration. No formal report was issued in 1983.

Access to Japan's Markets

Aside from the industrial policy debate, most issues concerned access to Japan's markets and access to U.S. markets. On the former, the year brought a number of important developments in the form of unilateral concessions by Japan that reduced a number of barriers to doing business in that country. These included the January package, the new standards law and the fall economic package. The contents of some of these packages was discussed in Part IV because they did not affect the United States alone. Here more attention is placed on the bilateral aspects of these developments.

January Package

Newly installed Prime Minister Nakasone made a state visit to the United States in January. To pave the way for that trip, Japan announced another package of unilateral market access measures (considered in Part IV). Of particular interest to the United States were the following:

- Tariff rates were to be reduced or eliminated effective FY 1983 on a number of items of concern to foreign countries,

including tobacco products, chocolate, biscuits, 47 agricultural commodities and 28 manufactured products.
- Import restrictions on agricultural products were to be relaxed on dried leguminous vegetables, peanuts, fruit puree and paste, non-citrus fruit juice, tomato juice, tomato ketchup and sauce.
- In order to bolster the activities of the Office of Trade Ombudsman, an eight-member advisory council was appointed. That office could receive complaints from embassies, trade organizations and foreign chambers of commerce on behalf of individual business.
- A liaison and coordinating headquarters directed by the Chief Cabinet Secretary and concerned ministries and agencies was charged with examining some thirty laws that form the basis for standards and import testing and certification procedures.
- Aside from the tariff concessions on tobacco, the government liberalized access for manufactured tobacco products. By March 31, 1983, U.S. cigarettes could be sold by retail stores in most cities; Tokyo and Osaka were to be opened by the end of October. All outlets wishing to sell foreign tobacco products would be allowed to do so by 1985.

These concessions were applauded by USTR Brock. The package did not, however, lift beef and citrus quotas. Nevertheless, the package certainly paved the way for a cordial meeting between the president and the prime minister later in the month, improving the rather fractious bilateral climate. The new prime minister impressed both administration and congressional leaders with his grasp of the issues and his determination to expedite their resolution.

Divided Attitudes in Washington

While it was evident in Washington that the administration intended to keep up the pressure on Japan, there was not universal acceptance of the goals or tactics of the administration. Some evidence of this was visible at a symposium held in February and in the annual economic report of the Council of Economic Advisers (CEA).

Washington Symposium U.S.-Japan trade problems were the topic at a symposium held by the new Institute for International Economics (IIE), headed by C. Fred Bergsten, assistant secretary of the Treasury in the Carter administration. The meeting included presentations by William Cline (IIE), Gary Saxonhouse (University of Michigan), Clyde Prestowitz (Department of Commerce), Alan Wolf (formerly of USTR), and William Eberle (Manchester Associates). It was attended by a number of people active in bilateral relations.

According to both William Cline and Gary Saxonhouse, economic data did not support the notion that Japan was substantially more closed to imports than other countries. While there was by no means agreement on the specifics of that proposition, participants largely agreed that the bilateral trade imbalance was not the source of the difficulties between the two countries. The problems were seen to lie in nontariff barriers, but evaluating the importance of those barriers proved difficult since much of the information was of an anecdotal nature. Industrial policy was also hotly debated.

CEA Report At about the same time, the Council of Economic Advisers submitted its annual economic report to President Reagan. The report, in an unusual move, stated that Japan was not the cause of overall U.S. trade problems, even though import barriers were judged to be troublesome in some specific areas.

The council said that it did not consider the large bilateral trade imbalance to be a problem, and that it was a natural outcome of the lack of natural resources in Japan. In fact, the report viewed the overall competitive position of the United States as healthy, using such criteria as the stable U.S. share of total Organization for Economic Cooperation and Development (OECD) member-country exports over the previous decade. It viewed the shift in the U.S. overall merchandise trade balance from surplus to deficit as a result not of a decline in competitiveness or foreign protectionism, but rather of changes in U.S. savings and investment positions which reduced U.S. net capital exports to the rest of the world.

If all remaining Japanese trade barriers were removed, the report argued, the impact on the overall or bilateral Japanese trade balance would be small because the increase in imports of previously restricted products would lower the value of the yen and thus generate offsetting movements (fewer imports and more exports) in other products. But the council did call for the removal of trade barriers on the grounds that they were distorting the composition of bilateral trade and were straining the political environment for a liberal trading regime.

The CEA has been a rather independent organization, but it was significant that the administration was willing to make such a strong statement confirming the health of the bilateral relationship at a time when relations had deteriorated so much.

The Standards Issue

After the state visit in January, and the attendant liberalization package, attention in the administration turned mainly to the question of standards and the Japanese intention to change the laws affecting them. In a visit to Japan at the beginning of March, USTR officials dwelt on the differences between U.S. and Japanese standards procedures and urged that Japan simplify the approval process in order to accord equal treatment to domestic and foreign manufacturers. The group pressed for greater transparency in drawing up import standards and harmonization with international standards and practices, including acceptance of foreign test data. Specifically, officials focused on three Japanese laws: the Consumer Product Safety Law, the Road Vehicle Act and the Pharmaceutical Affairs Law. It was suggested that changes should include a factory registration system of foreign manufacturers, self-certification by foreign manufacturers on compliance with automobile safety requirements, and the acceptance of foreign pharmaceutical test data.

Faced with continuing pressure from the United States, the Japanese government changed 17 laws in an omnibus standards bill. This was submitted to the Diet in the spring after two months of study and interministerial negotiations.

The details of the law passed by the Diet later in the spring are contained in Part IV. U.S. government reaction was favorable, although it was stressed that implementation was critical. While Washington monitored that process closely, there was little public discussion for the rest of the year.

The Administration Shift

By the summer, U.S.-Japan relations were moving toward a broad approach. This meant that rather than dealing with trade, defense, and other matters in a completely compartmentalized way, policy decisions would be subject to a greater degree of coordination within an overall framework. That overall framework stressed the importance of maintaining Japan as a close ally.

Within the administration there was an unpublicized, but nevertheless real, shift in power. For the first two years, trade policy on Japan had followed a very independent route. One result of that independence was the rather tense and loud negotiations over trade issues. By summer, the State Department and National Security Council seemed to be gaining a stronger coordinating role in policy development.

Establishment of New Advisory Group At the January summit meeting, the two leaders had endorsed the establishment of a new bilateral, private-sector advisory group. The Carter administration had backed a similar group in 1979, but it was disbanded upon completion of its final report in 1981. The new U.S.-Japan Advisory Commission held its first meeting on June 21. Headed by Ambassador Nobuhiko Ushiba and David Packard, the group consisted of seven members from each country representing business, labor and government.

The administration was committed to strong support for the commission. President Reagan attended the White House meeting launching the group. Secretary of State George Shultz hosted a working luncheon, and William Clark, then head of the National Security Council, officially commissioned the U.S. members. The new committee met several times during the year and issued an interim report in October; the final report is due in 1984.

Shimoda Conference A sense of greater balance in bilateral affairs was also visible in the sixth Shimoda Conference, held in Airlie, Virginia at the beginning of September. The meeting was characterized by a relatively amicable exchange of views among the 80 American and Japanese participants. It provided an opportunity for businessmen, policymakers and academicians with an interest in U.S.-Japan relations to consider areas for cooperation. Emphasizing the new administration attitude, Secretary of State Shultz appeared before the group—in the midst of the Korean Airline crisis.

While it was difficult to agree on positive proposals for resolving problems in the economic and defense areas, the discussions brought the two countries much closer to finding ways to accomplish mutual goals. Overall, it was felt that there would be great value in creating a study group of experts to devise practical recommendations for dealing with some of the specific problem areas identified by the conference.

In the trade area, there was mutual recognition that Japan had progressively liberalized access to its markets. While Americans acknowledged that some U.S. exporters were still not trying hard enough to sell in Japan, they pointed out that irritating quotas on agricultural commodities and the intricacies of the Japanese distribution system were still presenting problems.

The meeting was structured to focus on trade issues in the broader context of the relationship. The presence of the secretary of state also indicated the administration's attitude; two years earlier, it would have been more likely that Commerce Secretary Baldrige would address the group since the State Department was not active in U.S.-Japan relations.

Fall Bargaining

In the fall, trade negotiators met in Tokyo to tackle some of the nettlesome problems that had been around in the previous year. First on the agenda were discussions on industrial policy, referred to earlier. Discussions on Japan's beef and citrus import quotas followed (see below), but this dispute remained stalemated. The U.S. side was also beginning to sound out the Japanese on the question of extending voluntary auto export restraints. Continuing conflicts appeared to be ahead.

The Nakasone Initiative Anticipating that the United States would continue to press hard for concessions, Prime Minister Nakasone again took the initiative to develop a package of unilateral concessions, reflecting his concern over the political repercussions of the trade imbalance in the United States and Europe. He also asked the Liberal Democratic Party's (LDP) Select Committee on International Economic Measures to come up with its own recommendations to ease tensions by late September.

In a late July cabinet meeting, Mr. Nakasone appointed Jun Shiozaki, Director General of the Economic Planning Agency, to coordinate efforts to come up with a comprehensive foreign economic policy, including promotion of imports. Because of the scheduled Reagan visit to Tokyo, Prime Minister Nakasone told White House Deputy Chief of Staff Michael Deaver that Japan was doing everything possible to find solutions for the pending issues. That proved to be a difficult job, however, given the attitudes of different ministries.

Import Promotion Mission Before the foreign economic package was presented, an import promotion mission toured the United States in September to emphasize that foreign businesses were welcome in the Japanese market. The mission was to explore problem areas and report to the Japanese government. Headed by the president of Mitsui & Co., Ltd., Toshikuni Yahiro, the group spent two weeks in the United States. At the end, Mr. Yahiro lapsed into the timeworn reaction that trade frictions were hard to negotiate because of misunderstandings on the part of Americans. He met with the president, business leaders and government officials, and found that there was a conviction that invisible trade barriers existed in Japan. Americans were not convinced by statements to the contrary.

Economic Policy In August, MITI made some preliminary proposals to expand import financing. Its proposal would have reduced interest rates for importers and created yen-denominated bankers acceptances that would be eligible for rediscounting at the prevailing official discount rate. While this policy was not adopted in 1983, yen-denominated bankers acceptances did become a reality in 1984.

To promote imports indirectly, MITI favored policies to stimulate the economy. This tied the foreign economic package to the ongoing debate in Japan over domestic economic policy. The Ministry of Finance (MOF), on the other hand, maintained an overriding concern with the government deficit, opposing most schemes for fiscal stimulus. Even stimulative monetary policies faced opposition, since the Finance Ministry feared that such action would only lower the value of the yen on international exchange markets.

Late in August, the Economic Planning Agency (EPA) floated its own proposal, joining MITI in calling for stimulating domestic demand through macroeconomic policy measures. It called for a tax cut, increased spending for public works projects, easier credit to stimulate capital spending, an expansion of home mortgage loans, investment-tax credits and an official discount-rate cut. The EPA called for removal of all trade barriers, including lowering tariffs, elimination of agricultural quotas, strengthening the ombudsman's office and liberalized access to Japan's financial markets.

As the deadline began to approach, MITI marshaled its forces to press for fiscal and monetary measures to stimulate economic recovery. Lending its support to MITI, an advisory panel chaired by former EPA vice minister Isamu Miyazaki proposed steps to stimulate domestic demand. The call for a new package of foreign economic measures became tied to domestic economic policy.

Economic Package The package of economic measures announced on October 21 was a combination of trade measures plus domestic economic policy changes. The domestic policy elements (covered in detail in Part IV) included a tax-cut proposal, additional public works spending, and an official discount-rate cut.

On the tariff front, the government moved up the reductions on 1,200 manufactured items included in the Tokyo Round agreement from April 1985 to April 1984. It also was willing to accelerate the cuts scheduled for FY 1986 and FY 1987 to FY 1984 if the United States and the European Community would agree to take similar steps (which they did not). In another move, the government agreed to reduce or eliminate the tariffs on 44 products singled out by the United States and other exporting countries, including removal of the duty on semiconductors in April 1984.

American trade negotiators readily conceded that Japan had moved well beyond its international obligations in cutting tariffs on dutiable goods as a group, but they continued to be frustrated by Japan's unwillingness to deal with a number of problems they had raised time and again, including tariffs on plywood and veneer. At the same time, U.S. officials responded that tariff cuts, while important, did not go to the heart of American complaints about Japanese market access. Issues of primary importance to the United States, they complained, were either not addressed in the October package, such as agricultural quotas, or were just mentioned in passing. While they were dissatisfied, the approaching presidential visit and Japanese election effectively precluded any further action on these points. The only other substantive decision was on auto export restraints, which will be considered below.

Presidential Visit

President Reagan arrived in Japan on November 9. This trip contributed to a friendship between the two leaders, but was primarily motivated by political considerations. Prime Minister Nakasone was expecting to call a Diet election in the near future and the presidential visit was an important part of his strategy. The government expected to use the visit to reassure the Japanese public that the country was regarded as a major power in the international community. In addition, Mr. Nakasone could count on the meeting to enhance his personal prestige. The political climate in Tokyo was very volatile because of the recent verdict against former prime minister Tanaka. When the election was finally held in December, it was a blow to the Liberal Democratic Party (see Part IV), but the cause did not seem to lie with Prime Minister Nakasone's meeting with the president.

The state visit itself went very well. Marking the highpoint of the trip, Mr. Reagan spoke before the Diet, pledging that in spite of occasional problems the two countries would permanently maintain their friendship. Although both sides registered their economic differences, the talks were remarkably free of hostility. Spokesmen emphasized that the visit marked the maturing of a partnership that would continue to demonstrate a broader perspective.

The Yen-Dollar Issue

The president's visit to Tokyo marked the emergence of the yen-dollar issue. Internationalization of Japanese capital markets had been a quiet issue for some time, although it began to surface in the fall. For the past two years, American industry had been complaining that the yen was undervalued. While the administration had earlier rejected the notion that the Japanese government was deliberately holding the yen's value down, it did come to the conclusion that remaining capital controls in Japan may have had that unintentional result.

At the end of September, Secretary of State Shultz called for bilateral discussions on the yen. In congressional testimony in October, Henry Wallich of the Federal Reserve Board called for a variable export tax in Japan that would fluctuate with the yen rate. Next, the U.S.-Japan Advisory Commission noted in its October report that both governments should focus on bringing the yen and dollar into better balance.

This flurry of comments led to a joint statement on yen-dollar issues during the president's visit. Treasury Secretary Donald Regan and Finance Minister Noboru Takeshita released a joint press announcement on international financial matters. The language was very general and spoke of hoped-for changes to further internationalize the yen and raise its value on international exchange markets, pledging that both countries would pursue non-inflationary policies to generate sustained growth, would cooperate closely in dealing with developing-country debt problems, would consult on exchange-market developments, and would intervene to prevent disorderly market conditions. None of these points reflected a change from previous bilateral positions.

The announcement went on to list specific measures, although few of them could be guaranteed. The Japanese government agreed to:

- Eliminate the real-demand rule in the forward exchange market from April 1, 1984 (i.e., eliminate the requirement that forward exchange transactions be undertaken only to hedge trade contracts).
- Submit a bill to the next regular Diet session to reform the "designated company" system (whereby foreign equity ownership in certain designated companies was restricted) after consultation with the agencies concerned.
- Submit a bill to the next regular Diet session to enable issuance of foreign currency-denominated government bonds abroad.
- Expedite study of the establishment of a yen-denominated bankers' acceptance market.
- Seek to lower the minimum denomination of certificates of deposit (CDs) and raise the ceiling on the maximum issue of CDs by banks.
- Ease the guidelines for the maximum amount of new issues of Euroyen bonds by the Japanese corporate sector.
- Reconsider the withholding tax on interest earnings on Euroyen bonds held by nonresidents.

In return, the United States offered some vague promises to recognize Japanese concerns over the unitary tax issue, reduce the U.S. government deficit, strive for passage of legislation approving an increased U.S. contribution to the International Monetary Fund (IMF), and welcome the future issuance of Japanese government bonds in the United States.

These individual measures were supplemented by an agreement to establish an ad hoc bilateral working group (headed by the Treasury Secretary and Finance Minister) to monitor implementation of the above points, explore other appropriate measures for internationalization of the yen, and reinforce mutual understanding of the workings of the yen/dollar relationship. This committee, chaired at the working level by Under Secretary for Monetary Affairs Beryl Sprinkel and Vice Minister Tomomitsu Oba, did not meet until 1984, at which time it became a focal point of bilateral tension.

Other Sectoral Issues

In the context of the major trends and decisions outlined above, the two countries discussed a variety of other specific issues relating to U.S. access to Japanese markets. These included aviation, agriculture, energy trade, high technology industries, NTT procurement and standards.

Aviation The dispute over civil aviation concerned a request by Continental Airlines and its Air Micronesia affiliate that the U.S. Civil Aeronautics Board retaliate against Japan Air Lines because Japanese authorities allegedly denied them flying rights between Guam and Tokyo. It maintained that it was being denied rights specified in the interim agreement signed the previous year. The problem was settled without resorting to retaliation.

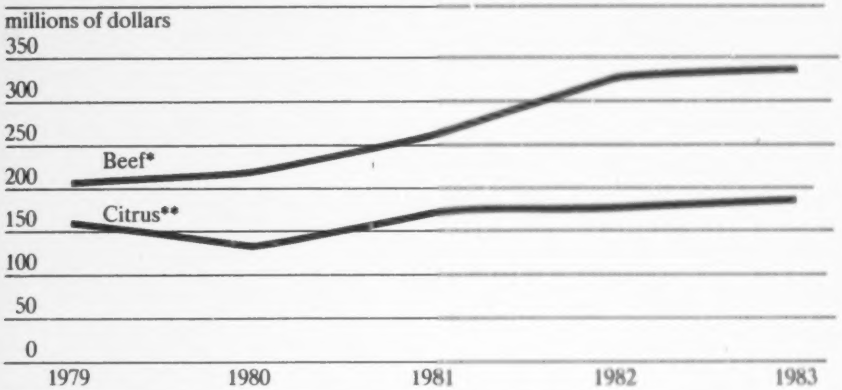
Agriculture The year proved to be a frustrating one for agricultural negotiations. The opening round of discussions on quota liberalization had broken down in October 1982 and finally resumed on April 26 in Washington. Discussions during this two-day meeting were exploratory, with each side probing the other's position for signs of new flexibility. The talks did not move to the substantive stage and were scheduled to be resumed at a later date.

Frustrated by the Japanese government's unwillingness to consider decontrol of 22 farm and fishery commodity groups subject to quota, U.S. agricultural trade negotiators finally made good on their threat to refer the issue to the General Agreement on Tariffs and Trade (GATT). Soon after the Williamsburg industrial nation summit meeting in June, the administration unofficially informed Tokyo that it could no longer put off its GATT complaint; on June 30 the United States took Japan to the GATT on 13 of 22 quotas.

Excluded from the U.S. complaint were quotas on fresh and frozen beef, fresh oranges and tangerines, and orange and grapefruit juices, which were covered by a bilateral agreement running until March 31, 1984 and subject to separate bilateral negotiations. The quantitative limits on a number of fish products and the quota on wheat flour were also omitted. Affected were milk and cream products, processed cheese, dried peas and beans, preserved oranges and tangerines, starches, peanuts (except for oil extraction), canned beef and pork (except canned ham and bacon), sugars and syrups, fruit purees and fruit pastes, canned pineapple and fruit pulp, non-citrus fruit juices, ketchup and tomato sauce, and a miscellaneous group of processed foods including some frozen foods.

Negotiations on liberalization of beef, oranges and citrus juice resumed in Tokyo on September 14. With the presidential visit approaching, negotiators for both sides were anxious to make progress on this divisive issue, but those hopes were dashed. The talks did not break down, but they did not move far, despite some signs of flexibility in negotiating stances. While the United States remained wedded to the idea of complete liberalization of Japan's agricultural trade, negotiators made it clear that the administration was willing to accept a realistic timetable for decontrol. Coupled with this offer was a proposal for continued phased-in liberalization through larger beef and citrus quotas after April 1, 1984.

U.S. Beef and Citrus Exports to Japan



**including offals* ***lemons, grapefruit and oranges*

Source: Department of Agriculture

The new American proposals did not find a receptive audience among Japanese government officials, although they did admit that the Reagan administration had become more realistic in its demands. Coming up with a schedule for beef and citrus liberalization was politically impossible, Japanese negotiators maintained.

With little progress at the September meeting, hopes faded for resolving the beef and citrus issue prior to the president's trip to Tokyo. Another meeting in October in Tokyo once again failed to produce much movement. At that meeting Japan failed to offer a counterproposal that could serve as the starting point for a negotiated settlement, so the talks were cut short by the United States. Final settlement of the issue had to wait until April 1984.

Energy Trade Following an agreement at the summit meeting in January, a bilateral energy task force was formed and met in April to discuss cooperation in long-term energy issues. American representatives emphasized the importance of diversifying energy imports in terms of national security, while Japanese officials pointed to cost factors. At a second meeting in July, both sides agreed that the present stability in energy markets was unlikely to continue through the 1990s and that both countries should continue to diversify their energy needs. The U.S. delegation emphasized that American oil, coal and gas producers should be considered Japan's most reliable long-term suppliers and pushed for long-term contracts.

The Japanese continued to explore the possibility of importing Alaskan oil despite the maze of prohibitive legislation in the United States. In September, several Japanese industry representatives came to the United States to discuss the situation. However, nothing came of these moves.

On the coal front, some trouble was brewing because of a fall in U.S. exports to Japan. U.S. industry and government representatives maintained that American coal producers were being forced to shoulder a disproportionate share of the downward adjustment in the coal purchases of Japanese steel mills.

At fall sessions of the U.S.-Japan Energy Working Group, U.S. government representatives pressed Tokyo for steps that would help maintain the U.S. share of Japan's coking and steam coal import market at about one-third. These calls were brushed aside by the Japanese, who maintained that American coal was not competitive with supplies from other sources because of high transportation costs. Turning this argument around, U.S. energy officials as well as industry spokesmen said that the delivered price could be trimmed if Japanese users signed long-term contracts with American producers and invested in U.S. mining infrastructure.

This position won the endorsement of President Reagan and Prime Minister Nakasone. In a joint policy statement on energy cooperation released at the end of their talks in November, the two leaders agreed to encourage the private sector in both countries to explore the possibility of concluding long-term contracts and jointly developing mines and transportation systems. Missing from the statement, though, was any mention of a target market share for coal mined in the United States.

High Technology Working Group The United States and Japan released a report in November on semiconductor industries produced by a subgroup of the High Technology Working Group, set up in April 1982. The joint effort to hammer out a set of recommendations to defuse frictions in high technology trade and promote cooperation in semiconductors, computers and telecommunications equipment stressed the importance of maintaining and promoting trade, capital and technology exchanges.

The two sides agreed to eliminate their 4.2 percent import duties on semiconductors effective April 1, 1984. In order to encourage the expansion of trade in semiconductors, the Japanese government went on record as encouraging manufacturers to expand opportunities for U.S. participation in joint ventures. Additionally, it affirmed government support for measures to encourage imports of semiconductors.

For its part, the U.S. government said it would encourage U.S. semiconductor manufacturers to strengthen their marketing efforts in Japan through exhibitions and sales promotion incentives. Representatives of both governments encouraged manufacturers to use NTT certification procedures. The recommendations also proposed that both governments strive to eliminate barriers to investment, if they exist, and ease the participation of foreign-affiliated companies in regional investment plans. Each government agreed to encourage technological exchanges, take steps to discourage unfair copying of semiconductor products, and strengthen patent protection procedures between the two countries.

NTT Procurement Procurement by the Nippon Telegraph and Telephone Public Corp. had been the subject of a bilateral agreement in 1979 and moved back into the spotlight in 1983 as the agreement approached the December 31 termination date. U.S. telecommunications companies maintained that the pact had made little difference in NTT's purchasing pattern by early 1983.

In February, USTR William Brock went public with the administration's disappointment over the results of the agreement up to that point, charging at a Tokyo press briefing that American telecommunications makers had made a major effort without selling much to NTT. Japanese officials responded that many of the big-ticket products that American companies were interested in selling were just coming up for bids.

Stung by the criticism, however, NTT decided in March to change its bidding procedures to help American manufacturers. Specifically, it decided to accept bids in English, not just Japanese; to accept bids at its New York office, instead of only Tokyo; and to extend the application period of Track II and Track III products from three to four months.

This move was followed by a series of seminars held in the United States to persuade American business executives that they stood a good chance of winning a larger slice of the procurement pie. The workshops were held in June in five cities, co-sponsored by the House Subcommittee on Telecommunications and the Department of Commerce. But most participants were still skeptical.

In a further bid to create a favorable environment for renewal of the bilateral agreement on procurement, NTT announced in October that contract awards for American-made products would more than triple in FY 1983 to $130 million. Included would be a number of big-ticket, advanced products that U.S. manufacturers were anxious to sell. Among the products that pushed up the 1983 total were a highly sophisticated traffic control software system, a supercomputer and a transportable digital switching system.

These moves failed to generate a renewal of the agreement, with the two countries managing to proceed no further than a three-month extension. The administration continued to have doubts about the sincerity of the Japanese in offering real opportunities to compete. The issue was finally resolved at the end of January 1984 with a new three-year pact.

Standards While most of the problems over Japanese standards and standard-setting procedures were resolved by the passage of the new law in Japan (see Part IV), the problem of aluminum baseball bats seemed destined to linger on. When the Japanese government lifted the safety inspection procedures that had hampered imports of American-made aluminum baseball bats, the announcement was hailed as a victory. But expectations were dashed as the months passed. Without a green light from Japan's official softball and baseball associations, the imported equipment was effectively banned from game use. Stymied once again, American makers renewed their contention that Japanese market access initiatives were merely cosmetic and that no imported baseball bats were ever going to be sold in Japan. Alerted to the possibility that the issue would surface on the eve of the president's visit, the Japanese government hastily intervened and announced that American aluminum bats could be used in official baseball and softball games, thus clearing the way for domestic sales, and deliveries from America.

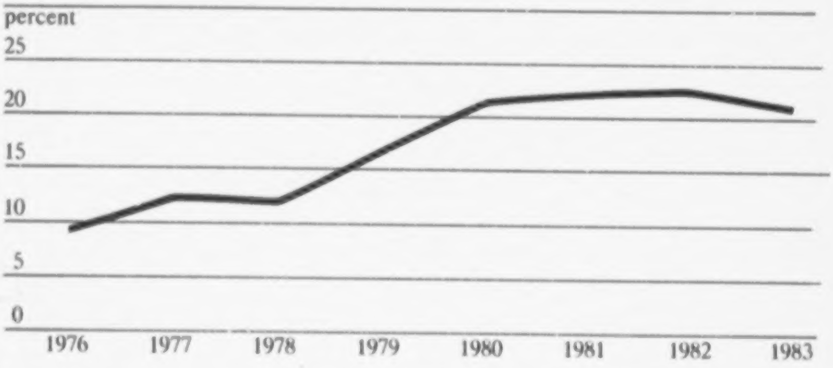
Access to U.S. Markets

Activity in Congress over general protectionist legislation dominated the action concerning Japan's access to U.S. markets. Reciprocity and local content legislation, as well as hearings on industrial policy, were detailed in previous sections. Activity was also pronounced on a sectoral level, with the government giving ground against protectionist forces that remained strong despite the recovering economy.

Automobiles

As the U.S. automotive market began to show signs of recovery, attention was again focused on the voluntary export restraint practices of Japanese auto makers. The battlelines were similar to previous years: those demanding continued protection because of the "unfair" competitive advantage held by Japanese manufacturers versus those calling for an end to restraints because they inflate the prices of both domestic and Japanese-made cars.

Japanese Share of U.S. Auto Market



Source: *Automotive News*

Third-Year Extension Months before the second year of Japan's limits on car exports to the United States was to end, American auto industry executives and labor leaders began to campaign for a third-year extension—an option left open by Tokyo in its May 1981 voluntary restraint pledge. By early 1983, United Auto Workers (UAW) president Douglas Fraser and management counterparts were lobbying for a two-year extension. The idea found a receptive audience in USTR William E. Brock, who had earlier put the Reagan administration on record as favoring a third year of limits. He warned that if the matter was not resolved in 1983, the question would come up again in the 1984 election campaign, a "tough time" to consider such an issue.

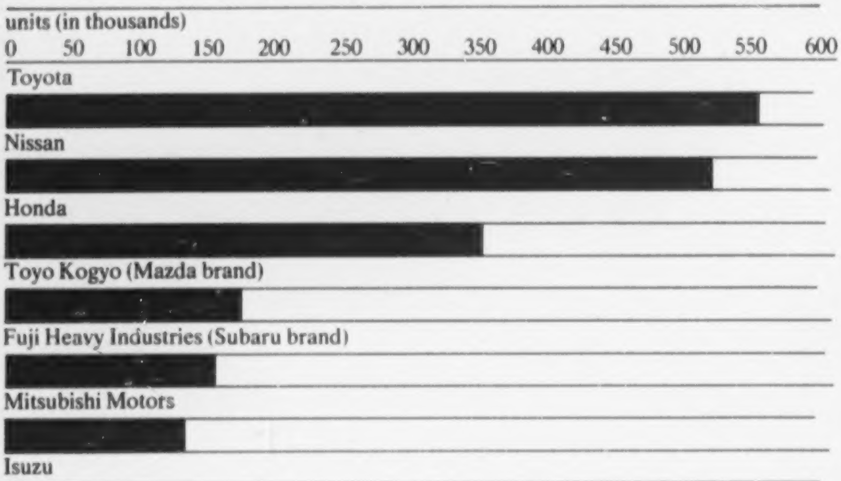
Japanese car makers were resigned to another year of restrictions as the price they had to pay to dampen protectionist pressures in the United States, but they strongly opposed a two-year extension without significantly higher limits. Despite some posturing by MITI, the Japanese government supported this position, and it moved quickly to announce a third year of restrictions before pressure for a two-year extension built up. On February 15, a month before any decision was expected, the cabinet approved the continuation of limits on Japan's U.S.-bound car exports through March 1984 at the FY 1981 and FY 1982 level of 1.68 million units.

As in the first two years of restrictions, the April 1983-March 1984 quota was divided up according to a formula using Japanese car makers' 1979-80 U.S. market shares. Accordingly, Toyota Motor Corp. received the largest share (516,659 units), Nissan Motor Co., Ltd. held onto second place (456,030 vehicles) and Honda Motor Co., Ltd. was third (348,631 cars). The rest of the quota was spread out among the remaining exporters: 159,282 for Toyo Kogyo Co., Ltd., the maker of Mazda vehicles; 112,584 to Mitsubishi Motors Corp. for sale under its name as well as through Chrysler Corp.; 70,584 to Fuji Heavy Industries, Ltd., the supplier of Subaru cars; and 16,800 to Isuzu Motors Ltd.

In terms of sales during calendar year 1983, distributors of Japanese cars retailed 1,911,318 units, a gain of 6.1 percent. Their overall market share fell, however, to 20.8 percent from 22.6 percent in 1982 because total U.S. retail sales jumped 15 percent to 9,177,777 units. Japanese manufacturers were thus not able to participate fully in the U.S. recovery. In an attempt to compensate for numerical limitations, exporters altered their product mix, shifting to more expensive models and models loaded with costly extras. This development provided more ammunition for the debate over the quota's price effects.

This issue continued to generate numerous reports and studies in 1983, most of which agreed that the restraints on supply caused prices to rise. Estimates of the artificial premium range from $200 to $2,000, depending on a plethora of conditions. U.S. auto makers, on the other hand, argued that car prices had actually declined relative to other goods. As proof, they pointed to the difference between the overall rise in the consumer price index and the automobile component of that index. Critics said that the car component of the index takes into account many non-price factors, distorting its meaning. In any case, premiums of $1,000 to $2,000 were tacked on to some scarce Japanese models in some metropolitan areas, and imported

Japanese Auto Sales in the U.S. by Company, 1983



Source: *Automotive News*

Total: 1,911,318

car dealers faced increasing shortages as the economy recovered in 1983.

Early Decision on 1984 Limits Even before the dust had settled on a third year of restraints, the issue of export limits beyond March 1984 exploded onto the scene. In July, a flap blew up over comments by the new Minister of International Trade and Industry, Sosuke Uno, to the effect that Japan did not intend to extend its restraints beyond the third year. Minister Uno's comments, made during a get-acquainted meeting with Japanese auto makers, were picked up by Western news services as the definitive statement on the subject and were presented as a significant departure from previous policy. This distortion served as ammunition for several vitriolic attacks by U.S. elected officials from car-producing districts; one even called it "another Pearl Harbor."

Other congressmen and U.S. car producers were more restrained, recognizing that the remarks did not represent Tokyo's last words on the subject of extension. U.S. trade officials expressed surprise at the statement and sought clarification from the Japanese. Because Mr. Uno's statements were not official, the Japanese government did not feel it necessary to issue any response. Through informal channels of communication, it conveyed to Washington that the comments certainly did not reflect Tokyo's final position on the issue. The political damage, however, had already been done: Japan was portrayed as a malicious trade partner, insensitive to the plight of American workers.

On July 27, Representatives Richard L. Ottinger (D, N.Y.), Robert Wise (D, W.Va) and others met with Japan's Ambassador to the United States, Yoshio Okawara, to present a letter that requested a fourth year of restraints. The letter, which was signed by 105 House members, was addressed to Prime Minister Nakasone, and said: "We, the undersigned Members of the United States Congress, wish to inform you that we view with alarm the recent announcement by Minister of International Trade and Industries Sosuke Uno of your country's intention to refuse to extend limits on auto exports to the United States for a fourth year. While we fully understand the desire of Japanese auto makers to capture a large share of the U.S. auto market, we feel that this decision is not in the best interest of both our countries. Further, we feel that the announcement of this move adversely affects any negotiations that may occur in the future dealing with exports of all types. We call upon you to reverse this decision immediately, and at least to continue the export restraint shown by your country during the last two and a half years in the automobile area."

Rep. Wise drafted the letter and circulated it within the House. Overwhelmingly, the signatories were Democrats who supported local content legislation; about half of them were first-term congressmen. Particularly heavily represented were the states of Michigan, Ohio and Illinois, where the auto-related industry is concentrated.

Ambassador Okawara explained to the congressmen that MITI Minister Uno's remarks merely confirmed existing policy and did not signal a change. However, the letter did indicate rising political pressure in Congress, and from Japanese press accounts, it was obvious that the congressmen linked the decision on a fourth year of restraints with the fate of the local content legislation.

At this time, Tokyo had yet to arrive at a consensus on the issue and was waiting for things to coalesce on the American side. While Japanese officials and auto makers were well aware of the political danger from delay, they had not yet begun to prepare for negotiations in specific terms. One factor that was on everyone's mind, though, was Mr. Reagan's scheduled November visit to Tokyo and its influence on the discussions.

Throughout the summer and early fall, the Japanese government signaled that it was prepared to accept another year of limits, in spite of all the uproar over Mr. Uno's comments. Mr. Reagan's upcoming visit undoubtedly helped spur bilateral efforts to resolve this issue, and by late October the two aides were trying to crack the tough issue of a new numerical ceiling. Many numbers had been floated in the United States and Japan, reflecting divided opinions inside both administrations as well as within the domestic auto industries of the two countries.

American car makers were divided into two camps: General Motors Corp. and everyone else. GM officials lobbied heavily for an increase in the ceiling that would accommodate the 280,000 to 300,000 cars it wanted to start importing in 1984 from its two Japanese affiliates. The other three U.S. auto producers were strongly opposed to any rise in the restraint level, as much to thwart implementation of GM's "Japanese strategy" as to limit competition from Japanese makers. For its part, the UAW pushed for a continuation of the restraints at or below the existing 1.68 million level for at least two more years.

The executive branch, already deeply divided over the economic wisdom of even asking Japan to continue the restraints for another year, had trouble agreeing on a politically acceptable number. With discussions in the cabinet-level Trade Policy Committee said to be stalemated, the decision was bucked to the White House. A level of 1.8 million units was finally decided upon by the president and his advisers.

Across the Pacific, Tokyo was having an easier, but by no means troublefree, time forging a unified position. Japanese car builders understandably sought a total end to the restraints, citing increasingly robust U.S. sales figures. The government, however, drove home the political realities of the situation in closed-door meetings with industry heads. Tokyo did bend to industry demands for significant increases, however, and the numbers of 2 million units and 2.2 million units were tossed about in public as the country's initial position.

Waiting until the last possible moment, Japanese and American negotiators reached agreement on a new ceiling for a fourth year of restraints on November 1. USTR Brock and MITI Minister Uno compromised on a ceiling of 1.85 million autos, a 10.1 percent increase over FY 1983's limit. The figure represented an even split between Mr. Brock's proposal of 1.8 million units and the 1.9 million figure sought by Mr. Uno.

At the official level, Minister Uno's announcement eliminated a major source of bilateral friction on the eve of President Reagan's trip to Japan, but it did little else. It did not derail congressional momentum for the domestic content bill. The announcement also failed to mollify Chrysler or Ford Motor Co., even though the continuation of restraints was expected to reduce Japan's share of U.S. retail car sales from about 22 percent in 1983 to about 18 percent in 1984. Moreover, USTR Brock said he could not rule out the possibility that the United States would ask Japan for another extension of the restraints after March 1985.

The negative reaction of Chrysler and Ford to the new restraint limit was expected. Their primary concern was that the higher export cap would allow GM to import at least some small cars from its two Japanese partners, Isuzu and Suzuki Motor Co., Ltd. Chrysler officials went so far as to threaten to cancel plans for a new domestically built subcompact if GM found a way to source most of its small cars from Japan. What was largely unanticipated was the victory handed the UAW as well as Chrysler and Ford on November 3 when the House of Representatives approved a domestic content bill. The legislation, passed by a 219-199 vote, was a major slap on the face for both the Japanese government and car makers.

With their cars already in extremely tight supply in the strengthening American market, and the Big Three turning in record or near-record financial reports, Japanese auto companies were reluctant supporters of continued export restraints. The government's decision to settle for a 1.85 million unit ceiling rather than push for a restraint level that would have allowed Japanese makers to maintain market share in the United States only added to their dissatisfaction. With the new ceiling in place, however, they turned their attention to discussing how the additional 170,000 cars to be exported in FY 1984 would be allocated.

Smaller exporters claimed that the system MITI used for the first three years discriminated against them and worked to the advantage of Toyota, Nissan and Honda. The established exporters, however, lobbied for priority based on the fact that they had borne the brunt of the restraints' effects. With all this jockeying, MITI officials waited until after the new year to make their final decision.

GM-Toyota Joint Venture

In February 1983, General Motors and Toyota made a big splash when they announced that year-long negotiations had resulted in an agreement to establish a joint venture in the United States to produce subcompact cars. The "memorandum of understanding" inked by GM chairman Roger Smith and Toyota chairman Eiji Toyoda called for the formation of an equally owned company to produce 200,000 front-wheel drive cars at GM's idle Fremont, California plant for sale starting in the fall of 1984 under the Chevrolet nameplate.

GM was to put up the Fremont facility and $20 million to cover its half of the project's estimated $300 million price tag, while Toyota was to kick in $150 million in cash. Most of the money was to be used for improvements at the California plant, closed since March 1982, including construction of a stamping plant nearby. The design of the new car as well as the major components will be supplied by Toyota, which will also manage the plant. About 3,000 people will be employed at the assembly plant, and up to 9,000 jobs could be generated in supplier firms, according to GM officials.

The project faced two immediate problems. Both auto makers said that a final go-ahead decision hinged on the negotiation of a satisfactory labor agreement with the UAW. The union pushed for rehiring Fremont's 6,800 laid-off workers on a seniority basis to staff the new operation, arguing that the proposed joint venture essentially represented a plant reopening, which would give laid-off workers recall rights. Toyota, while accepting the fact that the union would have a role in the plant's operation, wanted a relatively free hand in setting hiring and work rule policies. This obstacle was surmounted in September when UAW officials accepted the GM-Toyota position that the joint venture was a new company and as such was not bound by any union contract with GM. This freed management from having to hire workers from the pool of laid-off workers. In exchange, the two auto companies gave assurances that the majority of hourly workers hired would come from this category.

The labor question was not the only obstacle facing the joint venture, however. Serious antitrust issues had to be resolved before the joint venture could get rolling since the project involved a tie-up between the world's number-one and number-three auto makers. Basically, the Federal Trade Commission (FTC) had to decide whether the project would help GM expand its already dominant position in the U.S. car market by reducing current or potential competition in the subcompact segment.

Chrysler had no doubts about the answer to this question. Chairman Lee Iacocca told the FTC that the agreement "creates the world's most powerful combine and raises grave questions about its long-term effect on the U.S. car market." Going further, vice chairman Gerald Greenwald warned, "If they (GM and Toyota) stop competing against each other in the subcompact market, they will constitute an essentially unchecked combination that can manipulate prices to the detriment of consumers and competitors." The tie-up between the largest American and Japanese auto makers will also increase concentration in the already highly concentrated subcompact market, he added. Far from generating new jobs, he asserted, the venture would cost tens of thousands of jobs because the new subcompact would supplant the aging Chevrolet Chevette, closing down those assembly plants.

GM and Toyota, however, took special care to make their arrangement as benign as possible. The agreement is limited to twelve years and expressly prohibits cooperation in other areas. Nonetheless, the FTC's ruling on the enterprise was repeatedly postponed because of delays in receiving the voluminous amount of information requested from the two auto makers. The fact that Toyota did not provide some cost and pricing information it considered proprietary led to speculation in the industry that Toyota had lost its stomach for carrying out the venture. Both companies tried to dispel this impression by continuing negotiations with the UAW and offering to provide the FTC with everything it requested provided the agency could convince them that the information was essential to the determination.

The delay in FTC approval gave Chrylser and Ford repeated chances to blast the proposed production tie-up. At a House judiciary subcommittee hearing in September, spokesmen attacked the venture as a clear violation of U.S. antitrust laws. Ford charged that the joint venture would lead to the exchange of significant competitive information and give the two industry heavyweights an "abnormal competitive advantage." The two also discounted arguments that the joint venture represented a serious effort by Toyota to establish an onshore manufacturing presence. A Ford witness commented, "The venture does not represent a commitment by Toyota to U.S. production; rather, it is designed to produce cars for GM with high Japanese content—in effect, taking GM to Japan."

On December 22, the FTC gave preliminary approval to the agreement after GM and Toyota said they would sign a consent order barring anticompetitive actions. The two auto makers had balked at first, arguing that, while they did not have any objections to the contents of the order, it would give opponents another 60 days to delay the project, which was already behind schedule. Commissioners were adamant about obtaining the additional guarantee, and the two companies acquiesced after a day of discussions.

The consent agreement formalized the main points of the earlier memorandum of understanding—a 250,000-unit-a-year ceiling on production, a 12-year limit on the duration of the joint venture, and restrictions on information sharing. One point particularly intrigued industry observers, however: Toyota retained the right to open a second assembly line at the Fremont plant, a hedge against domestic content legislation according to Toyota officials. The consent agreement also provided that the joint venture could shift production of the GM-destined car to Japan, thereby freeing the California facility for increased output of a car to be sold by Toyota's U.S. dealer network.

Even the partners' explicit promise to refrain from anticompetitive practices was not enough to silence critics. Faced with the near-certainty of FTC approval, however, other U.S. makers more actively explored long-discussed co-production ventures with their own Japanese contacts. Whether such joint ventures would become a permanent development was open to debate. Nevertheless, the GM-Toyota deal represented a highly innovative approach to the problems facing producers in both countries. Its effects will certainly be felt for years to come.

Other Sectoral Issues

While automobiles were the dominant issue in U.S.-Japan trade relations, they were not the only irritant in the third year of the Reagan administration. Disputes over motorcycles, industrial fasteners, machine tools, steel, color televisions and textiles kept trade officials working overtime throughout the year. Because U.S.-Japan relations are complex, such disputes are only natural, but unlike 1982, the fora for these disputes returned to traditional trade laws.

In 1982, several American firms had tried novel approaches to gaining protection from imports, using national security and investment-tax credit arguments. Because of the protracted nature of the proceedings, some of the complaints were not resolved until 1983. The failure of this approach encouraged other domestic groups to return to traditional paths of seeking safety.

Motorcycles On January 25, 1983, a truncated Internationl Trade Commission voted two-to-one to recommend a five-year package of sharply higher import duties on heavyweight motorcycles from Japan and other countries to help Harley-Davidson boost sales of these expensive machines. Under the proposal, the 4.4 percent tariff on motorcycles with an engine displacement of 700 cubic centimeters and above would jump to 49.4 percent in the first year of import relief and then be scaled down to 39.4 percent in the second year, 24.4 percent in the third year, 19.4 percent in the fourth year and 14.4 percent in the fifth, reverting to the 1983 rate in 1988.

The trade panel's action came in response to a petition filed under section 201 of the 1974 Trade Act by the only remaining American motorcycle manufacturer, which complained that it had lost market share and laid off 1,600 workers because Japanese producers had flooded the market. The two commissioners voting in the affirmative agreed with Harley-Davidson, finding on January 19 that increased imports of heavyweight motorcycles were a substantial cause of possibly serious injury to the domestic industry. At the same time, the commission decided that rising entries of foreign-made motorcycle engines and power train subassemblies were not a threat, as Harley-Davidson had charged. This part of the complaint was directed at the U.S. assembly plants operated by Kawasaki Heavy Industries, Ltd. and Honda.

A huge overhang of Japanese motorcycle inventories in the United States—about a year's supply—persuaded the commission that Harley-Davidson needed help in the heavyweight segment. The American company had argued in its complaint that motorcycle dealers could only dispose of bulging stocks at cut-rate prices, further eroding Harley's already-depressed sales and its share of the heavyweight market, which stood at 14 percent, a third less than five years earlier.

In late March, President Reagan, in an unprecedented move, approved the commission's five-year tariff hike package in the hope that it would encourage Japanese manufacturers to provide loan guarantees and technical assistance to Harley-Davidson. He modified the trade panel's proposal, though, by establishing separate tariff-rate quotas for West German and other imported bikes. These tariff-rate quotas, which will be expanded each year during the relief period, were large enough that imports from non-Japanese sources would not be penalized.

At the same time the president set a tariff-rate quota for Japanese motorcycles, starting at 6,000 units in the first year and increasing by 1,000 units a year for the duration of the relief package. This measure was expected to exempt only a fraction of Japanese-made bikes from higher duties, since imports of heavyweight motorcycles from Japan were running close to 200,000 units annually.

U.S. trade officials conceded that Mr. Reagan's move was politically motivated. Harley is an American institution, and it was feared that there could be political repercussions if the administration allowed the company to go under. Lawyers for the Japanese manufacturers as well as industry analysts maintained, though, that stiff duties on imported motorcycles were not going to eliminate the substantial losses Harley had rung up over the previous two years. The company's primary problem, they argued, was the recession-triggered slump in demand, particularly among blue-collar workers. Moreover, it was added, higher prices for the competition's motorcycles were not going to persuade consumers to purchase a Harley instead of a Japanese-made model, since price is a secondary factor in the buying decision.

What the Reagan administration tried to achieve by enacting the steep tariff hikes was to force a resumption of bilateral discussions on financial and technical assistance. After the ITC announced its recommendation, the four Japanese bike makers offered to guarantee a reported $20 million in commercial bank loans to Harley for product development in an attempt to head off stiff duty increases. Harley reportedly refused to consider anything less than $40 million in loan guarantees, however. With high tariffs a reality, administration officials hoped the Japanese companies would raise their loan guarantee offer and possibly provide Harley with technical assistance. The fact that Mr. Reagan left open the possibility that he might rescind the escape-clause duties if Harley's business conditions changed underscored the administration's real intentions.

The Japanese government immediately and heatedly protested the decision, and followed up its protest by requesting consultations with the United States under Article 19 of the General Agreement on Tariffs and Trade. At the initial round of bilateral discussions, held in Geneva in mid-July, the Japanese delegation charged that Washington's relief package was discriminatory since the tariff-rate quotas were structured in such a way that only imports from Japan would be penalized. Government representatives claimed as well that the added tariffs were prohibitive and that five years of protection was excessive. All the American negotiators agreed to do was to give the Japanese government a formal explanation of why the U.S. action was justified.

In mid-September, Harley-Davidson officials admitted that talks with their Japanese competitors had resumed over loan guarantees. The guarantees were necessary if the U.S. producer was to bring to market a new motorcycle in the 700 to 1,000 cubic centimeter range—a model expected to have wider appeal than the company's lineup of 1,000 to 1,300 cc bikes. A second round of talks proved equally futile. In early November, Vaughn Beals, Harley's chairman, announced that negotiations with Honda had ended and that any plan to obtain loan guarantees from the Japanese company in exchange for a Harley request to remove the high extra tariffs on imports was "dead as a door nail."

In the aftermath of the whole affair, every Japanese manufacturer cut back on its export plans and rolled back introduction dates for new models. While their earlier overshipments clearly had some bearing on these decisions, the new tariffs had a major impact. As for Harley's 1983 sales performance, Mr. Beals admitted that a positive effect had not been noted since cold spring weather dampened industry-wide sales.

Steel U.S. steel makers, unable to maneuver the Japanese government into formally cutting steel shipments to this country from the sidelines, made good on their threat in December 1982 to file an unfair trade practices complaint against steel mills in Japan. Filing under Section 301 of the Trade Act of 1974, the American Iron and Steel Institute along with eight American steel producers, including United States Steel Corp., charged that a 1978 Japan-European Community (EC) steel pact diverted Japanese steel to the American market. The pact was alleged to be in violation of Japan's GATT obligations, as well as a tool used to carve up other markets between Japanese and EC steel makers. Petitioners sought stiff quota limitations on Japanese steel, as well as a 25 percent levy on imports to compensate for the effects of an allegedly undervalued yen.

The steel industry took a calculated risk in filing its 301 complaint since there were strong indications that the Reagan administration was leaning against investigation of the charges. The filing also set in motion an unusual chain of events. Just hours before the Office of the United States Trade Representative would have been required to decide whether to accept the petition, the steel makers withdrew their complaint. This step was taken on the slim chance that USTR Brock would work out a steel-restraint agreement with the Japanese government during a mid-February trip to Tokyo. Such was not the case. All the United States and Japan did was issue a vaguely worded statement committing themselves only to continued consultations on steel trade issues.

U.S. steel mills did not back down at this rebuff, resubmitting their complaint by the February 23 deadline. Their persistence was for naught. One week later, the administration formally rejected the petition. While not saying so, trade officials obviously concluded that there was insufficient evidence to warrant an investigation. Mr. Brock had pointedly stated after his mid-February trip to Tokyo that the domestic economy, not imports of Japanese steel, was the primary cause of the American industry's problems. This rejection, similar to the one the industry had received in 1977 from the Carter administration, did not end industry attempts to win protection from imports, however.

Specialty steel makers were much more successful in their protectionist efforts. The U.S. specialty steel industry has enjoyed some form of protection almost continuously since 1969 because of what the industry charged was a persistent pattern of dumping and foreign government subsidization. Its latest quest for relief began in December 1981, when a complaint was filed under Section 301 of the 1974 Trade Act charging that the increased market penetration of imports from six European countries and Brazil was the direct result of subsidization. After looking into this complaint, Mr. Brock's office recommended to President Reagan in the fall of 1982 that the International Trade Commission should conduct another investigation of specialty steel imports under Section 201 of the 1974 Trade Act, the escape clause. In late 1982, Mr. Reagan gave the go-ahead.

In March 1983, the ITC unanimously decided that increased imports of stainless steel sheets, strip, plates, rods and bars, and alloy tool steel were a substantial cause of serious injury. Although the commissioners readily admitted that the recession had hurt the domestic industry, the deciding factor was the combination of record high imports in 1982 and depressed economic demand, which gave foreign suppliers market shares ranging between 12.3 percent and 50 percent in these product lines. The ITC recommended that the president impose country-by-country quotas for three years, retroactive to January 1, 1983, based on fixed shares of forecast U.S. consumption, but accompanied by absolute floor quantities.

The ITC's injury finding and remedy recommendation caught Japanese exporters of stainless steel and alloy tool steel in the middle of a dispute that was not of their own making. Although Japan was the number-one source of imports, it was not a target of the domestic industry's campaign against unfairly priced imports, primarily because Japanese-made arrivals, unlike purchases from almost all other major exporting countries, had declined over the 1978-82 period. Nevertheless, Japanese producers stood no chance of being excluded from the proposed quota system.

On July 5, President Reagan opted to place a combination of tariffs and quotas on imports of specialty steel for a period of four years to give domestic makers time to modernize and return to profitability. While reiterating the administration's commitment to free trade, USTR Brock said that the government had to react to "serious distortions" in specialty steel trade that were causing "serious injury" in order to contain protectionist pressures on Capitol Hill. He characterized the decision as "a happy medium" between the ITC quota recommendation and the domestic industry's push for stiff quotas over a five-year period.

Under the relief program, global quotas were placed on stainless steel bars and rods and alloy tool steel, while higher tariffs were applied to flat-rolled products, which accounted for just under half of 1982 specialty steel imports. Predictably, this part of the package came under fire from domestic interests. They maintained that the added duties on flat-rolled products were too small to prevent foreign suppliers from overcoming them with increased subsidies from their governments.

European Community spokesmen were outraged at the relief package, but the Japanese reaction was low keyed, even though they had grounds to be quite bitter. A clearer indication of Japanese displeasure came when Tokyo initiated GATT Article 19 consultations with the United States in August. After an initial round of talks, the Japanese government reversed course, deciding to hold discussions with Washington on shares of the global quotas on stainless steel bars and rods and alloy tool steel for domestic mills, while reserving the right to continue GATT compensation negotiations with the United States for the added duties on flat-rolled products.

In the negotiations over stainless steel bar and rod and alloy tool steel quotas, Tokyo played all its cards to win the best deal possible for shippers. At first, negotiators reportedly pushed for allocations no lower than the mills' average share of U.S. imports during the 1977-79 period. Rebuffed on this front, Japanese representatives then apparently waged a losing battle for quota quantities equal to 1982's reduced shipment levels. What they ended up with—quota allocations proportionately larger than the share of imports supplied by Japanese makers in 1982—provided some vindication for Japanese exporters as fair traders, although perhaps not the complete exoneration initially desired.

The outcome of the negotiations was formalized in an orderly marketing agreement (OMA) announced in Washington October 20. Under the pact, which will run until mid-July 1987, first-year shipments of stainless steel bars, the Japanese industry's main specialty steel export to the United States, were capped at 12,500 tons. While this allocation represented a 28.5 percent cut from 1982's level, mills in Japan were expected to have 46.3 percent of the imported bar market—2.7 points more than in 1982. For alloy tool steel, Japan, the third-largest exporter, was allotted 18.2 percent of the global quota (4,080 tons) compared with a 12.8 percent market share in 1982 when shipments totaled 5,114 tons. On stainless steel rods, however, Japanese producers, normally the number-one suppliers, were given a first-year allocation that was absolutely as well as relatively bigger than 1982 shipments—5,600 tons for a 29.3 percent penetration versus 4,613 tons and a 21.1 percent slice of the market.

Although the OMA with Japan on specialty steel defused this steel issue, the Japanese industry became concerned late in the year that rising U.S.-bound shipments of carbon steel products could provoke new trade problems with American competitors. Concerned that any increase in exports, however modest, might be misinterpreted by the depressed U.S. steel industry, major Japanese producers tried to reassure their U.S. counterparts that they would continue to be prudent exporters by seeking fourth-quarter 1983 price increases to slow sales.

Against this background of protectionist activity, the administration belatedly moved to reactivate a tripartite steel industry advisory panel as a means of quieting industry demands for further protection. Both management and labor had been seeking this move as 1983 proved to be another gloomy year for U.S. producers. The mission of the panel, inaugurated August 4, was to study ways to improve the competitiveness and financial health of the American steel industry and to make recommendations to the White House and Congress.

Establishment of the advisory panel, with members drawn from industry, labor and government, was outlined during a long-sought meeting between leaders of the congressional steel caucus and the president. One factor spurring Mr. Reagan to meet with congressional representatives was the Fair Trade in Steel Act. Introduced by Rep. Joseph Gaydos (D, Pa.), the bill called for a steel advisory council as well as quotas on imported steel. The United Steelworkers of America and steel company executives supported the bill with varying intensity.

The new panel was headed by Commerce Secretary Malcolm Baldrige and was similar to an advisory panel established during the Carter administration. Many of the issues discussed were similar as well, including possible changes in U.S. antitrust, trade and tax laws. By year's end, the new panel had held several meetings, but no results could be expected in such a short period.

Federal Buy-American Rules Disagreement over the application of the buy-American rules of the Surface Transportation Assistance Act of 1982 pitted U.S. steel makers against steel importers and foreign steel producers. The prize was $53.6 billion in federal bridge and highway construction and repair contracts over the fiscal 1983-86 period. The 1982 bill contained language mandating the purchase of domestically made materials for federal-aid road work unless the use of foreign-manufactured materials would reduce total project costs by at least 25 percent. Under a similar 1978 law, American producers received only a 10 percent cost preference, making the buy-national proviso of the 1982 legislation not just far stiffer but also more costly for U.S. taxpayers.

The revised act also dictated that steel, cement and other materials used in federal highway projects be entirely of domestic origin, replacing an earlier 50 percent limit on foreign content. In another change, the buy-national requirement was to be applied to all projects funded under the new law, rather than to just projects costing more than $500,000. Moreover, the 1982 law permitted states to impose more stringent buy-American requirements on federal-aid projects than specified in the new legislation.

In March, the Federal Highway Administration (FHWA) of the Department of Transportation (DOT) issued temporary implementing regulations that exempted projects valued at less than $450,000 from the buy-American guidelines. Despite the fact that this category of jobs constitutes less than 10 percent of federal highway funds, steel firms and labor unions declared that the exemption defied the intent of Congress and began a campaign to force FHWA to apply the domestic preference provisions to all federally funded projects. FHWA officials argued in turn that they were simply continuing the practices set down in the earlier act. The steel makers' efforts were rewarded in June, however, when the FHWA repealed the small project exemption.

American distributors of imported steel continued to fight for changes in the rule's provisions. According to estimates by the American Institute for Imported Steel (AIIS), the new buy-American regulation could cost U.S. taxpayers $700 million over the following four years by eliminating the use of lower-cost imported steel for federally funded highway construction projects and by removing the competitive checks on the prices bid by domestic steel makers. One change sought by AIIS was the permanent exemption of projects costing under $450,000 from the buy-American requirement. Japanese steel exporters also pressed for a change in the requirement that "all manufacturing processes" for steel materials must occur in the United States. With an eye on sales of wire rod to domestic makers of pre-stressed strand, Japanese suppliers wanted the language modified to allow steel produced in this country but made from imported materials to be permitted in federally funded highway projects.

Pressure from domestic steel makers proved more effective than importers' arguments when FHWA issued the final implementing procedures in November. The purchase of American-manufactured steel and cement was mandated for all federal-aid road work unless the use of foreign-made products would reduce total project costs by at least 25 percent. In addition, the final rule applied to all steel mill products as well as to cement, while the earlier buy-national requirement was limited to just structural steel. Moreover, the new regulation specified that all steel and cement manufacturing processes must take place in the United States.

Industrial Fasteners American makers of nuts, bolts and other industrial fasteners were only one step behind steel makers in trying to use the full array of U.S. trade legislation to contain import competition. Stymied in 1981 in its effort to win an extension of escape-clause relief, the fastener industry filed a novel countervailing-duty complaint the next year against Japanese exporters. When the Commerce Department threw cold water on this move, the United States Fastener Manufacturing Group, the industry's trade association, refocused its activities on swaying the department's study of the national security implications of fastener imports. This investigation under Section 232 of the 1962 Trade Expansion Act had been initiated in the spring of 1982 in response to concerns expressed by Defense Secretary Caspar Weinberger that the domestic industry lacked the capability to meet existing and future emergency demands.

In March 1983, Commerce concluded that a high level of dependence on imported fasteners was not a risk to the readiness of the economy. This judgment was reached despite the fact that the study revealed that the domestic industry could meet only half of the emergency civil and military requirements for nuts, bolts and large screws. Depressed economic conditions and increased imports, the study said, shared about equal responsibility for the erosion in U.S. fastener production capacity, which was adequate only to meet defense requirements. During a mobilization, however, the United States could count on foreign suppliers, including Japan, to help make up the shortfall in requirements for civilian production.

Machine Tools The fastener industry was not alone in losing its bid for protection under Section 232. No industry except oil has received government protection on national security grounds. Despite this track record, the National Machine Tool Builders' Association (NMTBA) appealed in early March 1983 for across-the-board protection from foreign competition on national security grounds. In its petition, the trade association argued that a rising tide of imports threatened to cripple an industry critical to this country's "defense and deterrence posture." To maintain sufficient production capacity for national emergencies, the machine-tool builders asked the government to limit aggregate machine-tool imports to 17.5 percent of the U.S. market, measured in value terms, over the following five years. They also requested that import penetration in any one of 18 product lines be capped at 20 percent of sales.

The Commerce Department's one-year study of the issue reached the president's desk well into 1984. It was clear, though, that this attempt to gain protection for the machine-tool industry divided the Reagan administration just as deeply as Houdaille's earlier abortive effort to win relief under Section 103 of the 1971 Revenue Act had — a subject discussed previously.

Televisions Activity continued in 1983 in the longest-running trade dispute involving Japan: the 15-year running battle between U.S. color television producers, led by Zenith Radio Corp. and the Committee to Preserve American Color Television (COMPACT), and the major Japanese producers of consumer electronics over dumping duties on television sets imported from Japan. Zenith and COMPACT had fought tooth and nail to persuade the government to levy dumping duties of $600 to $700 million against their Japanese competition. The government had sought to settle the matter through negotiation and had come to a preliminary agreement on fines of about $75 million in 1980. Zenith and COMPACT, however, had managed to block implementation of the settlement agreement through a series of injunctions. The last of these lower court injunctions was dissolved in June 1983, and when the U.S. Supreme Court refused to issue a new injunction, the way was seemingly cleared to implement the negotiated settlement.

COMPACT, however, had one long shot at preventing the settlement from going through. The labor-management coalition had asked the high court to rule on the propriety of the procedures followed by the Commerce Department in negotiating the 1980 pact. COMPACT claimed that Commerce erroneously followed procedures outlined in the Tariff Act of 1930 rather than in the Trade Agreements Act of 1979, which requires consultations with affected domestic interests. COMPACT had already lost appeals on this issue in two lower courts, and its chances of obtaining a Supreme Court review were very small. The high court did indeed refuse to take up the case in early October, thus clearing the way for the U.S. government to finally begin collections procedures.

Other legal ploys proved as unrewarding for Zenith and COMPACT. In July, the Court of International Trade unexpectedly ruled that the International Trade Commission had erred in June 1981 when it concluded that the American television industry would be threatened with material injury if the dumping finding on Japanese-made TVs was revoked. The judge hearing the appeal of eight Japanese makers ordered the trade panel to reverse its determination. Zenith appealed, however, meaning that this case would drag on.

In late August, Commerce grudgingly struck another blow against protectionism by tentatively revoking dumping findings against five Japanese TV manufacturers. According to Commerce statements, these companies had met the basic requirement for revocation since they made all sales of television sets to the United States at not less than fair value over the two-year period from April 1, 1979 through March 31, 1981, or had only minimal margins on sales during this time. The Department stressed, however, that it must be convinced that the future behavior of the five companies complied with U.S. laws before the revocations could be implemented. Whatever the Department's final decision, appeals were expected to add years to the issue's life.

In perhaps the most serious blow to Japanese TV exporters, a federal appeals court ruled December 5 that a 1970 civil antitrust suit against them should go to trial. Zenith and National Union Electric Corp. (NUE) presented sufficient evidence of a conspiracy among Japanese companies to monopolize the American consumer electronics business to warrant such a step, the Third U.S. Circuit Court of Appeals concluded in overturning a 1981 decision by the U.S. District Court for Eastern Pennsylvania dismissing the suit.

NUE's 1970 suit charged seven Japanese producers with conspiracy to fix prices in order to dominate the U.S. market. Four years later, Zenith brought a similar, but much broader, civil antitrust suit to court, and the two cases were consolidated. After years of pre-trial discovery, U.S. District Judge Edward R. Becker began in 1980 to throw out the charges. In 1981, he discarded the conspiracy charges due to lack of evidence. "Nothing plus nothing times nothing still equals nothing," remarked the judge.

In sending the case back to the Philadelphia district court for trial, the three-judge appeals panel found that Judge Becker applied too strict a test in deciding what evidence to admit. The record showed "material issue of disputed fact which made the entry of summary judgment improper," read the unanimous decision in part. At the same time, though, the appeals court upheld the lower court's decision to dismiss charges against three of the major defendants, leaving seven Japanese companies as the principal defendants.

The Japanese sought a review of the appeals court decision. If the Supreme Court were to agree that the suit should be reinstated, the counterclaims filed against Zenith would be tried together with the plaintiffs' charges. In their counterclaims, the Japanese manufacturers contended that any antitrust investigation should be directed against Zenith, not them, since Zenith is a potential monopolist, trying to restrict competition in the U.S. consumer electronics market by filing multiple actions against Japanese makers. The request reached the Supreme Court too late in the year to be considered. Whichever way the high court acts, however, the dispute is sure to linger for years to come.

Textiles With the possible exception of steel makers, there is no more politically powerful industry than textile manufacturers. In 1983, they used their political muscle to prod the Reagan administration into cracking down on purchases of clothing from Taiwan, Korea, Hong Kong and China, maintaining that uncontrolled apparel imports threatened to cripple the industry's economic recovery. They saved their best efforts, however, for attacks on an old nemesis, Japanese exporters.

In January 1983, several U.S. textile mills made good on a threat to file dumping charges against Japanese exporters of lightweight polyester filament fabrics—the main textile product imported from Japan. In August, the Department of Commerce tentatively found an average dumping margin of just 1.292 percent, which was a far cry from the mills' claim of margins running from 100 to 210 percent. Enraged by this decision, textile industry officials sprang into action.

The top executives of two of the nation's biggest textile mills reportedly contacted Senator Strom Thurmond (R, S.C.) to protest the decision, citing "glaring" problems with Commerce's methodology. The textile makers' primary congressional ally subsequently approached Commerce Secretary Malcolm Baldrige with an apparently unique proposition: that industry advisers accompany department investigators to Japan to check the information supplied by Japanese manufacturers and provide the expertise obviously lacking in the preliminary determination. Mr. Baldrige denied the offer on the grounds that it would set a precedent. Strangely, though, U.S. textile representatives just happened to be in Osaka at the same time as Commerce's verification mission.

While mill executives were giving another demonstration of their political clout, the American Textile Manufacturers Institute (ATMI) was pushing its own lobbying campaign, accusing the Commerce Department of accepting the information supplied by Japanese weavers at face value. "There was virtually no independent critical review of their data," the trade association claimed, adding: "We know the case is a complex and difficult one, but we will insist that a careful analysis be brought to bear on it at this stage so that a true picture of the situation emerges and the government can make a final decision that is credible." If Commerce failed to do so, ATMI said, it would pursue court litigation.

Counsel for the American textile makers stepped up the attack at a November hearing, accusing import administration officials of making "off the record" decisions favoring Japanese exporters after holding secret meetings with them. The acrimony at the hearing, however, was not one-sided. Lawyers representing the Japanese textile mills blasted the Commerce Department for bowing to political pressure from textile state lawmakers. The investigation, it was asserted, was "completely politicized" because of Capitol Hill involvement.

After being pelted by charges of methodological and procedural errors from both sides, Commerce issued its final determination in late December. This time it found that Japanese exporters were selling lightweight polyester filament fabrics to the United States at prices that averaged 5.211 percent less than fair value. The higher dumping margin did little to tone down the claims and counterclaims traded by opposing counsel, however. In submissions to the International Trade Commission and at its final material-injury hearing, the American mills accused their Japanese competitors of waging a price war to take over an important U.S. fabric market. Spokesmen for the Japanese exporters ridiculed this charge, maintaining that the fabrics imported from Japan either are not produced in the United States or are superior in quality to the American product.

Despite all the controversy and invective, the case came to a quiet end two weeks before the ITC was to decide whether less-than-fair-value sales of Japanese-made lightweight polyester filament fabrics materially injured U.S. producers. In a surprise move in late January 1984, the American mills dropped their dumping complaint after the Japanese government signaled its willingness to limit U.S.-bound shipments in 1984 and 1985.

Fisheries Tokyo's continued objection to the International Whaling Commission's (IWC) decision to ban all commercial whaling by 1985 prompted Washington to withhold more than 100,000 tons of fish from the amount Japanese fisherman could harvest from U.S. waters in 1983. The State Department announced that Japan's fishing allocation was cut from 286,000 tons to 183,000 tons effective April 1. "We are withholding (part of the allocation) pending a resolution of some problems with Japan and the whaling issue is an element of that," an official stated. He hinted, though, that if there were progress on the whaling controversy, Washington might restore this allocation when it made its final allocations for foreign fishing on July 1.

According to the U.S. Fisheries and Conservation Management Act, after U.S. authorities determine how much domestic fishermen can harvest during a given year, the excess resources are allocated among foreign fishing nations. The U.S.-Japan Governing International Fisheries Agreement (GIFA), which was approved by Congress December 10, 1982 after earlier being signed by both countries, stipulated that Tokyo's future allocations were contingent on its compliance with the so-called "fish and chips" criteria: improved access for U.S. fish and fish products to foreign markets; greater efforts to aid American industry through harvesting/processing joint ventures; improved cooperation in enforcing U.S. fishing regulations; joint development of standard gear and harvesting and processing techniques; and improved research on fish resources.

The new GIFA also stipulated when the State Department was to release the surplus. Half of each year's allocation is to be released in January and the remaining half split evenly between April and July. In this way the United States retained the opportunity to reduce Japan's allotments or retaliate against its failure to comply fully with the reciprocity criteria. The April reduction was presaged by an early 1983 State Department letter addressed to Senator Bob Packwood (R, Ore.), indicating that the administration intended to use the GIFA allocations procedure in an attempt to bring Japan into compliance with the IWC's proclamation.

The climate improved marginally in July when the United States announced that it was releasing the entire remaining 25 percent of Japan's annual fishing quota. While it released 279,300 tons of a 1,145,000 ton total, it refused to restore the earlier 100,000 ton cut. The IWC annual meeting had come and gone without any measurable change in Tokyo's position and Washington held firm to its punitive stance.

The State Department appeared to drag its heels in announcing the July quota because of a reported lack of unanimity within the administration on the appropriate response. Evidently, some officials, reinforced by congressional outrage at Japan's whaling activities, favored slashing Tokyo's fishing allocation still further, while others felt that such a reprisal might unduly strain already tense bilateral relations. The Japanese steadfastly maintained that they had not violated the IWC treaty. They also pointed out that the objection Tokyo had filed to the IWC ban on commercial whaling was a perfectly legal procedural tool that a country can use to buy additional time for domestic debate on the matter.

With regard to the July allocation, the Ministry of Agriculture, Forestry and Fisheries charged that it was "unreasonable" for the United States to link fishing allocations to the whaling issue. Recognizing the strength and effectiveness of the American environmental lobby, however, Tokyo was apparently anxious to maintain a dialogue with the United States on commercial whaling in the hope of realizing some sort of compromise that would secure the Japanese continued access to bountiful fishing grounds as well as their right to continue what they regarded as their important whaling tradition.

The Reagan administration turned up the pressure on Japanese fishermen another notch in 1983 by increasing the official fees charged foreign fishing vessels operating within the U.S. 200 mile economic zone. The 28 percent hike was considered stiff by many observers, but they also noted that the Commerce Department had been considering a 33 percent increase. Lengthy bilateral discussions were held prior to Commerce's final decision, and Japanese fishing interests were able to persuade U.S. officials to reduce the planned hike.

The actual fees collected by the United States depend on the volume of fish caught, and Japanese sources estimated that Tokyo's 1.1 million ton quota in 1983 meant fees of $31.2 million. According to Japanese news sources, the fishery firms, while protesting the exorbitant increase, would nevertheless swallow it in order to retain the right to operate in American waters.

Unitary Tax Fourteen states impose a unitary tax under which the income derived from all of a company's subsidiaries throughout the world is subject to state corporate taxation. In other words, the income of a particular subsidiary is based not only on its earnings, but also on the earnings of the parent company and all other subsidiaries, regardless of their location. The tax is a headache for all multinational firms, and a serious constraint on new investment projects. Not only have industry representatives objected to paying double taxes, they have also found the burden of acquiring documentation from all of the affiliated companies around the world intolerable.

On June 27, 1983, the Supreme Court upheld California's unitary tax system in a case brought by Container Corp. of America, a unit of Mobil Corp. Although the high court did not address the issue of the applicability of the tax to the U.S. affiliates of foreign corporations, it seemed likely to Japanese executives and government officials that if the state was within its rights in taxing an American firm's global affiliates, it would not be barred from levying the same tax on foreign-owned companies.

With the Supreme Court decision, Japanese companies affected by the unitary tax, particularly California's, began an aggressive lobbying effort to get the system eliminated or at least modified. Sony Corp. said in November that the company, which has a television manufacturing plant in San Diego, planned to file an appeal with California's State Board of Equalization. Kyocera Corp., another Japanese investor with manufacturing facilities in San Diego, made a similar appeal in December, and both companies made it clear that they would fight the tax to the state supreme court if necessary.

Philosophically, one would expect the Reagan administration to oppose a measure that could significantly reduce foreign investment in the United States and pose potential problems for American firms operating overseas. The White House, however, rebuffed the efforts of Japanese companies and the government of Japan to obtain the elimination or modification of the unitary tax system, citing court cases upholding its constitutionality and the prerogatives of states in internal economic affairs.

The Reagan administration did establish a working group headed by Treasury Secretary Donald Regan to study the unitary tax issue, but this concession did little to appease Japanese interests, particularly after the task force decided in early December not to pursue repeal efforts. Moreover, the working group moved to set aside consideration of pre-emptive legislation then pending in Congress that would overturn the unitary tax systems employed by several states. Without administration support, alternatives for unitary tax opponents were significantly limited.

In a double blow to foreign investors in the United States, the Supreme Court in early December refused to hear an appeal by a Royal Dutch Shell affiliate to review a U.S. appeals court decision in favor of California on unitary taxes. Shell Petroleum N.V. had filed suit in California, but the appeals court ruled that only the U.S. affiliate of a foreign corporation could challenge the unitary tax, not the parent. The appeals court further stated that the existence of commercial treaties between the United States and foreign countries was not sufficient grounds for challenging the tax in American courts.

In response to the White House task force's "shocking" decision not to seek repeal of unitary tax laws, the Japan Federation of Economic Organizations (Keidanren) announced that it would send a delegation in early 1984 to 13 American states to urge that the tax be abolished. The party was to include representatives of Japanese firms with major stakes in the United States and was to be led by Sony chairman Akio Morita. Although the delegation was not expected to be able to influence the task force, press reports suggested that the Japanese government would take retaliatory actions if the tax was not repealed.

Hitachi-IBM Case In June 1982, in one of the biggest industrial espionage cases in the United States, 16 Japanese employees of Hitachi, Ltd. and Mitsubishi Electric Corp. were indicted by the Northern District of California federal court on criminal charges of illegally obtaining information on International Business Machines Corp.'s (IBM) computers. The case outraged both countries. Americans pointed to the charges as proof that the Japanese were using any means to pull ahead in the technological rivalry, while the Japanese saw the whole affair as a coordinated government-IBM attack to ward off any Japanese high technology challenge.

On February 8, 1983, Hitachi, which manufactures mainframe computers compatible with the industry leader's systems, and two of its employees pleaded guilty to charges of conspiring to transfer stolen IBM material to Japan. The two employees, who were fined a total of $14,000 and placed on probation, were prohibited from engaging in any business activity as Hitachi employees in the United States. Hitachi itself was fined $10,000. According to Hitachi officials, the settlement was initiated by the prosecutor. Hitachi agreed both because the defendants had been detained in the United States and to spare the company the negative impact of a lengthy trial.

In September 1982, IBM filed a separate civil suit against Hitachi demanding compensation for damages incurred and seeking measures to prevent Hitachi from using the information it had allegedly stolen in its new products. Hitachi countersued, contending that the company as an entity had no responsibility to pay any compensation and asserting that the information was obtained legally. In addition, Hitachi denied there was any possibility that the technology would affect its products.

On October 7, 1983, an agreement was reached that was seen as protecting IBM and restoring "relations which have traditionally existed between (the two companies)." The agreement stipulated that IBM has the right to inspect all new Hitachi computer, terminal, semiconductor or peripheral products until October 1, 1988 to see whether they incorporate any of the computer giant's technology. Hitachi is obliged to provide IBM with new product information ninety days before the first shipment of a new model. IBM can obtain an injunction from a special three-member panel to prevent distribution of the product if it believes the product contains confidential IBM data. The settlement also required Hitachi to pay all legal and other fees in connection with the civil case.

At the time of the settlement announcement, industry observers both in the United States and Japan suspected that there was more to the agreement than met the eye. Their suspicions proved justified. In late November, senior Hitachi executives confirmed that the company had paid IBM about ¥10 billion ($43.5 million for its past use of IBM-developed software and for legal fees. They also disclosed that Hitachi was paying the U.S. firm "several hundred million yen" a month in additional software licensing fees under an arrangement separate from the agreement settling the civil suit. While Hitachi officials declined to be more specific about the terms of this eight-year pact, industry watchers in Japan pegged monthly payments at roughly ¥500 million to ¥1 billion ($2.1 to $4.3 million), although as Hitachi phases in its own software, these payments will decrease.

Hitachi spokesmen maintained that the software fees, which one source placed at roughly ¥20 billion ($87 million) through March 1984, would have little impact on the company's near-term financial results. Securities analysts generally agreed with this assessment, in large part because the diversified company derives only about 15 percent of its sales from computers. Both sources were right. Hitachi's data processing equipment sales were up by over 20 percent in fiscal year 1983, solidifying the company's hold on the number-three spot in Japan's computer industry.

Debate on Japan's Defense Role

With the advent of the Reagan administration, the conduct of mutual security relations entered a new era. Former Secretary of State Alexander Haig set the tone when he announced during the presidential transition period that the United States would no longer criticize its allies in the press, just behind closed doors. Policy disagreements might continue, but preservation of relations would be emphasized.

This is not to say that there were no disputes, however. Debate over Japan's defense spending levels, over its role in preserving security in Asia, and over the flow of high technology could not be held behind closed doors. Nonetheless, the severity of browbeating and righteous lecturing decreased significantly as both administrations realized that they had much in common when it came to defense policy.

Bilateral Discussion of Japan's Role

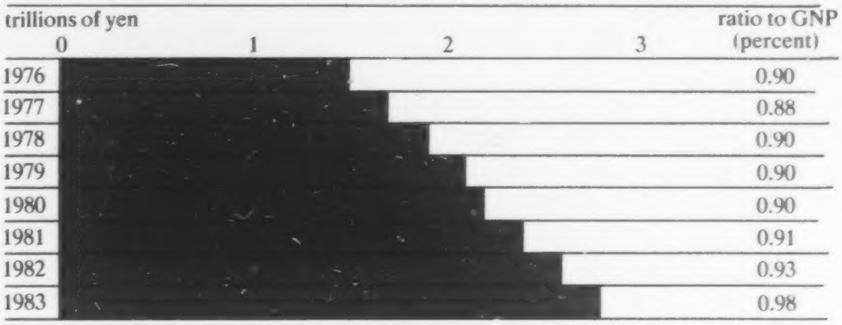
The U.S.-Japan defense relationship surfaces as an issue with great consistency and dependability. A variety of meetings and discussions in private and in the press painted a picture of the state of this cornerstone of U.S.-Japan relations in 1983.

Japan's FY 1983 Defense Budget After intense haggling between the austerity-minded Ministry of Finance and the Japanese Defense Agency (JDA), the Nakasone cabinet decided to raise the fiscal 1983 defense budget by 6.5 percent, a level that far exceeded increases for many social welfare programs yet failed to satisfy Washington's hopes for an expanded Japanese defense commitment. Prime Minister Nakasone's trip to Washington put the pressure on cabinet members to reach a compromise that would stand some chance of placating Washington hawks, yet not trigger a backlash from other strapped ministries.

Administration response was lukewarm in light of the drop in planned defense spending growth compared to FY 1982's increase of 7.8 percent. The State Department issued a bland statement that did little to hide its disappointment. A spokesman remarked that the 6.5 percent FY 1983 increase "falls short of the meaningful further steps which seemed necessary if Japan were to achieve within a reasonable time the defense goals (contained in the 1983-1987 plan)," but noted that the Nakasone government faces "domestic financial difficulties." Defense Secretary Caspar Weinberger concurred that the FY 1983 increase "will not enable [Tokyo] to reach" its self-defense goals, but termed the Nakasone compromise a "reasonably significant effort."

Congress was less pleased, however. Senator Carl Levin charged that the 6.5 percent increase "only means further delays [in attaining by 1990 an effective conventional self-defense capability, including the capacity to defend its sealanes to 1,000 nautical miles]." In addition to re-passing S.Con.Res 46 (which called for U.S. allies to assume a greater share of their security responsibilities), the Michigan Democrat said the Senate may have to consider more severe proposals, such as restricting the growth of U.S. troops in Japan or limiting U.S. military construction funds, unless Japan agrees to more equitable defense

Defense Spending in Japan



Source: Japan Defense Agency

cost-sharing arrangements. The fact that the new defense allotment still amounted to less than one percent of GNP (0.977 percent) acted as a lightning rod for discontent during congressional debate over inequities in both the economic and politico-military aspects of the bilateral relationship.

Preparation of FY 1984 Defense Budget
No sooner had the FY 1983 military budget been passed than debate over FY 1984's defense outlays commenced. The Nakasone cabinet was trapped between its commitment to shrink government spending on the one hand, and its responsibility for an increased share of Asia's security burdens on the other.

The Finance Ministry sought 10 percent cuts from every agency in its FY 1984 budget guidelines. In July, however, the cabinet proposed a 6.88 percent ceiling on FY 1984 defense expenditure growth, a decision that angered other ministries and disappointed Washington. Mr. Nakasone could not push his hawkish views on the Japanese public any more than he had already done for fear of a political backlash. Yet many in Washington were disappointed by the initial proposal, expecting an increase on the order of 10 to 12 percent that would back up the bold defense statements the prime minister made while visiting Washington. The administration's view, as voiced by the Pentagon, was that it hoped "whatever increase is ultimately approved will be adequate for Japan to fulfill the defense roles and missions which it has undertaken."

Senator Levin, as an expression of his displeasure with the 6.88 percent figure, successfully inserted language in the fiscal 1984 Defense Authorization Act that not only requires the Defense Department to submit annual reports to Congress on allied contributions to the common defense, but includes two additional reporting requirements that single out Japan: one that would detail the Japanese forces necessary to defend its air and sea space out to 1,000 nautical miles, and the other that would specify which U.S. forces stationed in Japan were devoted to defending Japan and which to the defense of other nations.

In December, the Finance Ministry released its defense budget counter-proposal containing a much smaller 4 percent allowance for growth. JDA officials immediately backed the idea, although Mr. Nakasone had to hold his peace because of the imminent Diet elections. U.S. officials expected the prime minister to overrule MOF since the FY 1984 budget was the first budget over which he had total control. The year ended in turmoil due to the LDP's losses in the Diet, which also served as a warning to Mr. Nakasone and the Americans that the defense issue could only be pressed so far.

Bilateral Sealane Defense Study Following up on a 1982 agreement, the United States and Japan began a joint study concerning the protection of Japan's Pacific sealanes out to a distance of 1,000 nautical miles. The study was ostensibly targeted on various "threat scenarios" in the Asian Pacific region. In truth, however, U.S. officials hoped that the study would force the Japanese to take a realistic look at their defense requirements as well as illustrate that a real, rather than potential, problem existed in the defense of the home islands.

By late March, working-level defense officials had laid the ground rules for the study. Tokyo was concerned that the study would recommend collective defense activities which are barred by the constitution. JDA officials stated that the study would be predicated on the country's current defense capabilities and that the conclusion would not necessarily require either country to alter its defense policies.

No one expected the study to be completed quickly, and it appears that these expectations were well-founded. The sealane study was still in progress in 1984 with no concluding date in sight.

JDA Head Visits Washington JDA chief Kazuo Tanikawa met with Defense Secretary Weinberger in Washington in late October to discuss joint defense efforts and cooperation. Although the JDA director general had met annually with his U.S. counterpart for the past six years, this was the first direct contact between these two high-ranking defense officials since Prime Minister Nakasone assumed office in November 1982.

The defense secretary was reportedly not overly critical of Japan's efforts to upgrade its defense capabilities in his discussions with Mr. Tanikawa. He was evidently appreciative of the decision to allow a 6.88 percent increase in the FY 1984 defense budget. With a worried eye toward an increased Soviet presence in Asia, Mr. Weinberger nevertheless pressed for a more rapid buildup of forces. The JDA chief responded that well-entrenched political obstacles exist, but promised to convey the secretary's views to Mr. Nakasone.

On a related issue, Mr. Weinberger pressed for an airfield for night training of aircraft based on the carrier U.S.S. Midway. Such training, Mr. Weinberger stressed, was essential to the Midway's role as a forward-based vessel. The JDA chief reportedly said that additional night training facilities would be provided as soon as possible.

DOD 1983 Burdensharing Report In accordance with the Levin amendment to the 1983 Defense Authorization Act, the Defense Department submitted the first annual report to Congress describing the contributions of the NATO allies and Japan to the common defense. The report was not complimentary to Japan. Although the goal of adequate self defense was formally stated in 1956, the report observed, it had yet to be achieved. It further argued that the 1983-1987 Mid-Term Defense Plan (MTDP) was inadequate to sustain Japan's present forces or to build the requisite levels of air and naval forces. Moreover, Japan's ground forces had obsolete equipment and the ground, air and naval forces had only "token" levels of ammunition. Although Prime Minister Suzuki said that in 1981 Japan would undertake to protect the sealanes to 1,000 miles, the report added, the MTDP made no mention of or provision for sealane protection and the air and naval forces were still inadequate for this role. The report did note, however, that Prime Minister Nakasone had clearly affirmed the Japanese people's strong concern over the growing Soviet threat, and said that Washington "has great hopes" that he will implement his promise to promote appropriate and necessary defense efforts.

Senator Levin, the author of the legislation, remarked: "I believe that an examination of what nations have formally committed to doing for the common defense, in comparison to what they actually are doing, is a most useful way for Congress to assess relative burdensharing efforts." He said that unless Mr. Nakasone could provide significant increases in defense spending on the average of 10 to 12 percent, the American people would be forced to conclude that Japan remained a nation unwilling to meet its sovereign commitments. "Congress should begin focusing, in the future, on the question of whether the force levels in Japan are appropriate for defending U.S. interests or whether they are contributing to defending Japan alone rather than to maintaining our mutual security interests," he added.

The Japanese response was relatively even-tempered. Chief Cabinet Secretary Masaharu Gotoda pointed out that the Defense Department's criticism of the adequacy and quality of Japanese forces "is not a new one but often stated in the past." The Japanese government's policy of steadily implementing the MTDP "according to our own judgment" had not and would not change, he stressed.

Exchange of Military Technology

As the technological expertise of the Japanese private sector came to rival that of the American economy, interest in technology flows increased. While serious discussion of the issue began in 1982, only in 1983 did any real activity take place. The issue illustrated how the two countries' divergent views on the relationship between technology and national security can interact to cause friction and crises of confidence.

Preliminary Agreement In early January, the cabinet approved a bilateral agreement to allow reciprocal transfers of defense-related technologies, a proposal that had been under review for almost three years. Although this decision was hailed in the United States as "signaling a major shift in Japan's 15-year-old ban on weapons exports," U.S. sources conceded it would probably be a long time before actual exchanges took place.

The January agreement was strictly "in principle;" that is to say, diplomatic notes on the matter were not exchanged and bilateral military research and development efforts were still illegal under Japanese law. The agreement was, however, a significant symbol of Japan's awareness that the mutual security arrangement had evolved past the "patron-ward" state and now required more reciprocal cooperation.

In announcing the decision, Chief Cabinet Secretary Gotoda acknowledged that "in improving its defense capabilities, Japan has benefited from various kinds of cooperation extended by the United States, including technology transfers." He added, "it has become extremely important for Japan to reciprocate in the exchange of defense-related technologies." Mr. Gotoda stressed that implementation of any final agreement would be made within the framework of the 1954 Mutual Defense Assistance Agreement, thereby exempting the United States from the "Three Principles of Arms Exports," which ban weapons exports to communist countries, countries under U.N. sanction, and countries involved in or likely to become involved in a conflict.

Japanese Internal Debate The preliminary agreement immediately put Mr. Nakasone in hot water with the opposition parties, but he reiterated his position that technology transfers were within the constitutional framework. The prime minister also defended the agreement on the grounds that it would enhance the effectiveness of the U.S.-Japan Security Treaty. He assured the Diet, however, that exchanges would take place under strict controls and that no third-country technology transfers would be permitted. Critics were not impressed, and under close questioning, the prime minister admitted that the technology-exchange decision did amend the "Three Principles," in effect overriding the Diet's authority.

The controversy in the Diet over the technology transfer issue could not be quelled, and in part contributed to a six-day boycott of assembly business by opposition members in early March. When opposition representatives returned, another battle broke out over the question of providing not only military technology but weapons themselves to the United States. Japan has maintained a strict ban on weapons exports, but Foreign Ministry officials, testifying before the Diet, said that if the United States requested weapons, it was possible at some time in the future that Japan would agree to their export. Other cabinet ministers criticized this view and insisted that no exports of weapons to any country would take place, revealing a sharp split in the government. A statement was worked out saying that only military technology was included in the bilateral exchange agreement and that arms exports should be reviewed in light of the past ban. The statement carefully sidestepped the question of future supplies to the United States, however, by saying that the "present" cabinet would not engage in such action.

During two days of talks in mid-August, Japanese and American negotiators failed to bridge their differences on a formal technology exchange agreement. The major problem was the failure of the Japanese government to forge a consensus among the major ministries. MITI, the Foreign Ministry and JDA fought over the general framework of the agreement, with the first two seeking a case-by-case review system and JDA arguing for an umbrella arrangement that would leave specific implementation up to individual defense contractors. U.S. negotiators advocated JDA's position because it offered "reciprocity, continuity [of contracts], and no red tape."

Pact Signed Under the pressure of President's Reagan's impending November visit, negotiators reached a compromise on November 8. By this time Tokyo had hammered out a unified position that sought to maintain maximum control over exports through case-by-case review. American representatives fought to adopt the umbrella arrangement. The final accord blended these two approaches. The accord itself is a memorandum of understanding, although all requests for technology sharing have to be approved by a Joint Military Technology Commission, composed of three Japanese members (one each from MITI, the Foreign Ministry and JDA) and two U.S. government representatives. The commission's decisions are to take into account Japan's national interests. Approved transfers will be made within the framework of the Mutual Defense Assistance Agreement.

Despite the agreement, American sources predicted that it would be some time before actual defense-related technology transfers took place. They pointed out, however, that the export of dual-use technologies, which are probably of greater interest to the United States, might be encouraged. Japanese companies had been reluctant to share dual-use know-how for fear of running afoul of the weapons export ban. With dual-use technology specifically mentioned in the preamble to the technology transfer accord, authorities in both countries hoped that Japanese companies would be more willing to share this know-how with their American counterparts.

U.S. Interference Ironically, as the U.S. government was seeking access to Japanese technology with potential military applications, it was also denying Japan access to American dual-use technology. The Department of Defense acted twice in 1983 to prevent Japanese companies from obtaining defense-related technology from American firms. The first incident involved Kyocera Corp.'s sale of Dexcel Inc., a maker of semiconductor devices used in components of F-15 and F-16 fighter aircraft. Japanese sources claimed that the Pentagon forced Kyocera to divest itself of Dexcel, citing national security concerns. Although defense officials denied this, their involvement in the second incident brought this into question.

Allegheny International Inc. announced in late June that a deal to sell its Special Metals Corp. subsidiary to Nippon Steel Corp. had been nixed by the Pentagon. Allegheny officials quoted Defense Department letters expressing concern that Special Metals, a leading U.S. producer of superalloys used in aircraft bodies and engines and other applications requiring metals with high strength and heat resistance, would fall into the hands of a foreign country. Again, officials denied that they had done anything more than "voice their concern" over the sale, but American press reports stated that the department had tried to get a last-minute change in export administration regulations to block the sale. The entire issue of technology transfers pointed up the gap that officials on both sides of the Pacific must close before true cooperation in high technology areas can take place.

U.S.-Japan Trade

Lackluster business conditions in most major foreign markets and steady economic recovery in this country teamed up with the strong dollar in 1983 to produce a record-shattering U.S. merchandise trade deficit. At $57.5 billion, the overall red-ink trade entry topped 1982's near-peak deficit by a whopping $25.8 billion. Sales abroad dropped for the second year in a row, falling 5.5 percent to $200.5 billion. At the same time, imports, which had contracted in 1982, rebounded 5.8 percent to $258.1 billion on a Customs value basis.

Contrary to conventional wisdom, this country's large trade imbalance with Japan played only a bit role in the runaway U.S. trade deficit. The bilateral red-ink entry did widen from $16.8 billion in 1982 to an all-time high of $19.3 billion last year, but this increase represented just one-tenth of the deterioration in the overall trade deficit. Exports to Japan bucked the demand-dampening effects of a strong dollar and a sputtering domestic economy and rose 4.4 percent to $21.9 billion; in the process, they made up for the ground lost in 1982. For their part, American imports of Japanese-made products expanded 9.1 percent to $41.2 billion, a fairly modest gain considering the competitive edge the high dollar gave manufacturers in Japan and the strength of the U.S. recovery. Moreover, all of this increase occurred in 1983's final quarter.

U.S. Exports to Japan

Food and feed commodities, which had fallen by 15.7 percent in 1982, paced the rebound in U.S. exports to Japan, rebounding 11.7 percent to nearly $5.6 billion. Exports of capital goods (including automotive products) reversed course as well, with a 15.4 percent gain to $5.1 billion replacing a year-before loss of 7 percent. Moreover, consumer goods remained firmly entrenched in the plus column, increasing 2.8 percent to $1.4 billion on top of an earlier rise of 2.9 percent. Industrial supplies provided the only sour note as exports, after expanding by 2.1 percent in 1982, contracted 4.8 percent to $8.7 billion, partly in reaction to some overbuying the previous year.

Industrial Supplies The much-delayed recovery of Japanese manufacturing output in 1983 brought little relief to U.S. exporters of key intermediate goods since the rebound largely bypassed the smokestack industries that are among the big consumers of imported industrial supplies. Coal was a case in point. Weak domestic demand, particularly in the important construction sector, cut Japanese steel production for the fourth year in a row, dropping it to the lowest level since 1972. This slide obviously did not bode well for American coking coal companies, especially those that are swing suppliers to the steel mills.

What really hurt U.S. export prospects, though, was the fact that Japanese steel manufacturers were overcommitted on coking coal deliveries from Australia and Canada. Long-term contracts signed with mines in these two countries during the steel boom of the early 1970s or later in the decade, when concern about future coal shortages swept the industry, saddled steel makers with supplies far in excess of their 1983 coking coal requirements. To make room for these shipments, the mills pared their purchases from U.S. producers, which only have year-to-year delivery contracts.

The result: coking coal exports from this country dropped 27.9 percent to 16.1 million tons, while arrivals from Australia went up by a tenth to 31.1 million tons and Canadian deliveries expanded by a slightly smaller margin to 11.3 million tons. With a similar scenario slicing American steam coal shipments to Japanese electric utilities almost in half to 1.7 million tons, U.S. bituminous coal exports contracted 34.3 percent in 1983 to $1 billion.

While homebuilding is not usually considered a smokestack industry, in Japan it shares many of the characteristics of the manufacturing industries covered by this rubric. Japanese housing starts fell in 1983 for the fifth consecutive year and hit a 16-year low. Moreover, the proportion of wooden houses in total residential construction edged down again—a casualty of more prefabricated housing and high-rise apartment buildings.

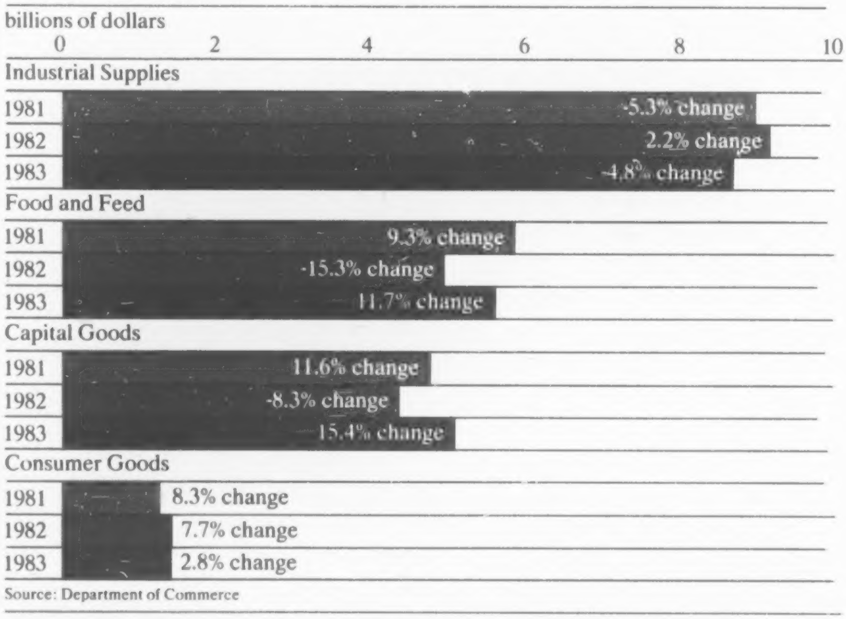
For American and other foreign suppliers of softwood logs for home construction, however, these trends did not translate into the expected shipment decline, even though Japanese wholesalers and sawmills entered 1983 with above-normal stocks. In fact, U.S. log exports, made up almost entirely of softwood species, expanded 2.5 percent to 2 billion-plus board feet, leading to another hike in inventories.

Moreover, neither the housing slump nor the increased competitiveness of Japanese lumber cut from foreign logs curtailed purchases of American lumber, which inched up 0.6 percent to 632 million board feet. Sawmills here picked up some of the slack from lower Canadian lumber exports, but the main factor propping up U.S. shipments was a planned inventory buildup in Japan. Unfortunately, higher shipment levels did not cancel out the effects of weak Pacific Northwest softwood log prices, and the value of log and lumber exports fell 13.9 percent to $0.9 billion.

For other groups of U.S. exporters, the problems of Japan's smokestack industries meant new or expanded sales opportunities. Nowhere was this more obvious than in petroleum refining. Continuing sluggish demand at home forced Japanese oil refiners to cut their operating rate again in 1983. Much of this adjustment fell on heavy (residual) fuel oil, leaving the country particularly short on bunker fuel used in coastal shipping.

California petroleum producers, saddled with large inventories of refined products, were well positioned to provide bunker fuel and other products in short Japanese supply, including light (distillate) fuel oil, generally used by industry as a fuel. With shipments of heavy fuel oil up sharply and sales of petroleum coke still rising, U.S. exports of petroleum products increased 3

U.S. Exports to Japan



Source: Department of Commerce

percent last year to $0.6 billion-plus.

The Japanese paper and paperboard industry's on-going efforts to deal with the problems of soft domestic demand and reduced international competitiveness had a mixed impact on U.S. exports of paper base stocks in 1983. Demand for wood chips dropped for the third year in a row as mills again increased their consumption of recycled paper to cut costs. In addition, American suppliers of softwood chips continued to lose some sales to Australian exporters of hardwood chips because of the steady shift in Japanese output from kraft and other "brown" papers to finer grades of paper.

On the plus side, though, demand for U.S. wood pulp, which was priced more attractively than its raw material, expanded. Scrap paper exporters also benefited from higher Japanese usage of recycled paper. On balance, therefore, sales of paper base stocks only slipped 1 percent to $0.5 billion.

The problems of another structurally depressed industry—aluminum refining—also produced mixed results for U.S. exports. Japanese primary ingot production slumped in 1983 to just one-fourth of 1979's level. With resurgent domestic demand and increased export opportunities pulling up the output of aluminum products to a new high, fabricators in Japan had to depend on a record volume of imports for most of their primary ingot requirements.

This country remained the largest foreign supplier, but shipments contracted because rebounding American demand and tight supplies lifted prices in the U.S. spot market well above the prices at which Japanese fabricators could obtain primary ingot from overseas "develop-import" projects or under long-term contract. Sales of aluminum scrap to secondary smelters, which use it to produce ingot mainly for castings but also for beverage-can sheet, expanded, however, largely because of increased foreign demand for Japanese-made can stock. This expansion was enough to push combined U.S. exports of primary ingot and scrap up 11.9 percent to just under $0.6 billion.

Operating conditions in Japan's struggling petrochemical industry improved in 1983, mainly because of lower-cost supplies of its primary feedstock and fuel, naphtha, and the closure of small, inefficient plants for the production of ethylene, one of the basic building blocks for petrochemical intermediates. This progress did not erase the overall cost advantage American producers enjoy in commodity petrochemical intermediates like styrene monomer among the products derived from aromatics (cyclics) and ethylene dichloride and acrylonitrile among the intermediates based on ethylene, propylene and other olefins (acyclics).

In some specific commodity products, though, American exporters did lose their edge because the improvement in the Japanese industry's cost structure occurred at a time of recovery-triggered U.S. price hikes. The 1983 export record for petrochemical intermediates was therefore checkered, with cyclic products generally stronger than acyclic compounds. On top of declines in a number of other key chemical exports, most notably radioactive isotopes, the mixed performance of petrochemicals produced a 4.2 percent dip in chemical sales to $1.3 billion.

Food and Feed Perhaps no major U.S. export faced more uncertain market prospects in 1983 than corn. Japanese demand for livestock and poultry mixed feed—the end use of three-fourths of corn imports—had rallied in 1982 from back-to-back declines, but traders were concerned that higher corn prices and/or lower prices for eggs, milk, broiler meat, pork and beef would choke off recovery.

Their principal fear was that the surge in U.S. corn prices, triggered by the payment-in-kind program announced in late March and escalated by last summer's severe drought, would lead to a big hike in commercially mixed feed prices. List prices did jump twice in 1983's second half, but by using industry-generated or government-supported price stabilization funds, Japanese feed mills were able to maintain 1983 retail mixed feed prices below the levels that had prevailed in 1981 and the first three quarters of 1982.

On top of relatively favorable prices for all livestock and poultry products except eggs, the cut in the effective price of mixed feed produced record demand for formula feed. By itself, this development meant extra sales for U.S. corn exporters. In addition, though, corn/sorghum price ratios were tilted for much of the year in favor of increased corn usage.

With drought limiting exportable supplies in other corn-exporting countries, American growers reaped double benefit from the continuing recovery in Japanese mixed feed production. Equally important, tight supplies of South African maize also enabled U.S. exporters to recapture a significant share of Japan's increasing trade in corn for manufacturing corn sweeteners, corn starch and other processed products. This combination made 1983 a banner year for corn exports: volume climbed 14.1 percent to 513.7 million bushels and sales jumped 37.5 percent to just under $1.8 billion.

Last year also turned out to be a record-shattering year for soybean exports. Despite continued gains in vegetable oil consumption, Japanese oilseed crushers had limited the size of the soybean crush in both 1981 and 1982 because of relatively weak demand for soybean meal in livestock and poultry mixed feed. The on-going recovery of formula feed production in 1983, especially increased demand for broiler feed and stable demand for hog rations, in tandem with a further rise in soybean oil demand eliminated the ceiling on the crush, however.

Also helping to boost the crush to a new peak level was another shift in relative protein meal prices. Price ratios, which had favored greater use of rapeseed meal in mixed feed through most of 1982, tilted back toward soybean meal usage, although the soybean meal content of feed did fall late in the year in reaction to drought-induced hikes in the price of U.S. soybeans.

Stable feed production and attractive soybean meal prices alone virtually insured all-time-high soybean shipments by the United States—the supplier of all the soybeans crushed by oilseed producers—even without any apparent rise in sales of food-use soybeans. What guaranteed record sales, though, was overbuying by the Japanese crushing industry, which was concerned that the 1983 U.S. drought might lead to tight supplies and even higher prices than actually materialized. Together, these developments lifted deliveries 11.9 percent to 167.2 million bushels and elevated sales 24.7 percent to $1.2 billion.

Capital Goods The strong dollar and generally weak Japanese plant and equipment spending could have easily turned 1983 into another year of disappointing sales for U.S. manufacturers of capital goods. Instead, exports of high technology products increased almost across the board as big corporations, especially those in the industrial and consumer electronics field, earmarked more money for automation, capacity expansion and/or research and development.

The rapid pace of office and factory automation in Japan proved to be a particular boon for American makers of data processing equipment. New hardware and software offerings, including a number of products tailored to the local market, and expanded distribution channels helped U.S. vendors tap the buoyant demand for both systems—whether microcomputers, minis or mainframes—and add-on peripherals. International Business Machines Corp., which has launched a counteroffensive in Japan to regain the top spot in the computer market, was the big winner, thanks in large part to the success of its new personal computer for office use and continuing brisk sales of its big mainframes. With solid performances by other U.S. competitors, exports of data processing equipment went up 9.3 percent to $0.9 billion.

Commercial aircraft rounded out the list of U.S. high technology products scoring export gains in 1983 as sales, which have become increasingly cyclical in recent years, rebounded 98.5 percent to $0.8 billion. Although weak demand for air services kept their finances shaky, Japan Air Lines (JAL) and All Nippon Airways (ANA), Japan's major domestic carrier, took delivery of 11 new large passenger transports ordered earlier in the 1980s.

JAL added four of Boeing Co.'s 747s to its fleet, including two 747-200s and two 747-300 SUDs, a new, stretched jumbo jet costing $99 million each. The international carrier also put another of McDonnell Douglas Corp.'s DC-10s into service. For its part, ANA took delivery of six 767s out of an order for 25 of Boeing's new generation of medium-range, medium-capacity jetliners. JAL's purchase of another used 747 freighter also helped to boost the aircraft export total.

Consumer Goods While the strong dollar and lackluster Japanese consumer spending trimmed sales of a wide range of U.S. consumer durables and nondurables in 1983, pharmaceutical exports continued to increase—but by a scaled-back 6.5 percent to $0.5 billion-plus. Sluggish demand for first- and second-generation antibiotics and the strong position of Japanese drug houses in third-generation products held down the growth of American-manufactured antibiotics, as did the stiff competition among Japanese makers for market share. In addition, sales of human serum and other blood derivatives, a second major export line, fell, apparently because of a shortage of blood here.

U.S. Imports from Japan

The modest gain in U.S. imports from Japan in 1983 was admittedly attributable in part to a 20.9 percent drop in arrivals of intermediate goods to $5.4 billion. At the same time, though, imports of automotive products increased a moderate 15.7 percent to $14.9 billion, while consumer goods purchases went up just 5.8 percent to $8.3 billion. Capital goods, in fact, were the only end-use category to show signs of buoyancy, as deliveries climbed 24.8 percent to $11.9 billion.

Automotive Products The long slide in sales of American-made cars finally came to an end during 1983. Helped by the rebounding economy, a drop in interest rates, stable gasoline prices and improved consumer confidence, as well as more competitive product offerings, U.S. auto makers chalked up sales of 6,795,302 units, an 18 percent improvement on 1982's dismal performance and the best tally since 1979.

For Japanese motor vehicle exporters, though, the market recovery was as much a source of frustration as relief. With U.S.-bound shipments during the April 1983-March 1984 period limited for the third consecutive year to 1,680,000 sedans plus 82,500 station wagons and four-wheel-drive vehicles, arrivals of Japanese-built cars went up a mere 4.6 percent in 1983 to 1,791,164 units. These deliveries allowed dealers to increase sales of Japanese nameplates by just 6.1 percent to 1,911,318 units and supply only 20.8 percent of the expanding American market rather than the 22.6 percent they controlled in 1982.

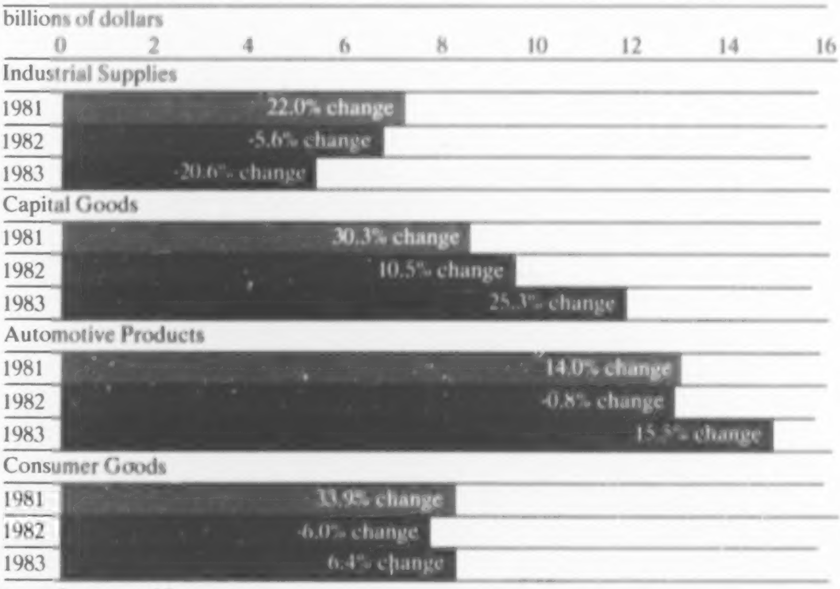
While the limited availability of Japanese cars in the fast-recovering American market proved to be a bonanza for the Big Three U.S. auto companies, it was a marketing nightmare for the domestic distributors of these vehicles. If stocks were run down one month to support strong demand, sales usually suffered the next month because of inadequate inventories. By front-loading shipments of their FY 1983 allocations, Japanese manufacturers were able to deliver enough cars to their American dealers during the spring selling season to keep sales on the upswing. By summer, though, stock levels that were once unimaginable—a 22-day to 24-day supply for all Japanese makes and even less for the import leaders—became the norm.

With the market continuing to gather momentum, sales of individual Japanese nameplates increasingly became a hit-or-miss proposition depending on just how skimpy inventories were. Toyota Motor Corp., alone among the top five Japanese suppliers, managed to post a sales gain in 1983's final quarter, and just it and number-two Nissan Motor Co., Ltd. were able to lift July-December retail deliveries above year-earlier levels. Strong first-half results, though, helped Mazda Motor Corp. and Subaru of America Inc., which is supplied by Fuji Heavy Industries, Ltd., finish 1983 with a higher full-year sales count. Only Honda Motor Co., Ltd., the third-biggest importer, fell short of its 1982 total, but with sales of 50,400 cars from its new Ohio assembly plant, the company actually outgained its rivals.

The cap on Japanese shipments to the United States in an up market had a much-publicized flip side: higher sticker prices and product mixes slanted toward option-loaded economy cars and top-of-the-line models. At the import level, these factors, on top of the rise in deliveries, translated into a 12.3 percent gain in U.S. purchases to $10.3 billion. For Japanese car makers and their American distributors and dealers, they meant fatter profits. While none of the companies breaks out profits on their American operations, a glance at sales by models leaves little doubt that U.S.-generated earnings swelled during the first three years of export restraints. Just between 1982 and 1983, for example, Toyota's sales of its high-end Celica, Supra, Camry and Cressida models expanded from 35.3 percent of the top import seller's total to 42.7 percent, while Nissan's retail deliveries of the top-of-the-line Maxima and ZX went up from 23.7 percent to 28.2 percent.

Big margins on their U.S. car sales not only inflated corporate profits but also allowed Japan's motor vehicle builders to continue the expensive campaign for sales in the expanding American compact pickup truck market. The Japanese industry had virtually monopolized this market until late 1981-early 1982, when General Motors Corp., Ford Motor Co. and Chrysler Corp. in quick succession introduced the first domestically designed and manufactured small pickups. The marketing battle was joined.

To keep U.S.-made compact trucks with their bigger passenger and cargo compartments, better fuel economy and competitive prices from walking off with an ever-increasing share of the market, Japanese manufacturers and their American importing units pared profit margins to maintain the base prices on their vehicles below the


U.S. Imports from Japan

Source: Department of Commerce

competition's. They also made previously optional equipment standard, added new models to their lineups, increased advertising budgets and periodically offered below-market financing and other incentives.

These aggressive marketing tactics, which had had mixed results in 1982, paid off in 1983. Although Detroit upped its market share from 59.3 percent to 61.7 percent, each of the five importers of Japanese-built compact trucks posted record sales and combined retail deliveries climbed 34.5 percent to 420,085 vehicles. To support this sales jump, distributors worked down the generally large inventories they had carried into 1983. Imports were also increased 15.5 percent to 420,212 units, pushing purchases up 13.5 percent to $1.7 billion.

Capital Goods While U.S. business investment took a beating during the 1981-82 recession, computers and a handful of other high technology capital goods were relatively immune to the downturn. With equipment spending rallying on schedule in 1983's second half, demand for these products accelerated, pulling in more imports from Japan as well as boosting the output of domestic manufacturers.

Purchases of Japanese-made data processing equipment and parts alone soared 115 percent last year to $1.8 billion—fueled, indirect evidence suggests, by peripherals for small computers. Explosive U.S. sales of business-oriented desktop systems provided enormous opportunities for Japanese suppliers of printers since they dominate the market for low-speed dot-matrix units and control a major slice of the smaller market for letter-quality printers. Japanese disk drive manufacturers, which have made inroads in the U.S. market for 5.25-inch floppy drives but have had less success with small rigid drives, also profited from the boom in personal computers.

Increased arrivals of small business systems from Japan apparently swelled the import total too, as Japanese vendors tried to capitalize on the hot demand for desktop computers to make headway in a market they have had trouble cracking. Also probably playing some role in 1983's import surge were initial shipments of portable computers from Japan, but a more important factor was the jump in parts deliveries. Ranging from subassemblies for the mainframes made by the two primary U.S. producers of IBM-compatible large systems down to subassemblies for home computers, these parts, like many of the computer and peripheral products coming in from Japan, were bought mainly by American computer companies under original equipment manufacturer (OEM) contracts.

Booming sales of small business systems on top of solid if unspectacular growth in mainframes and minicomputers, telecommunications equipment and industrial and commercial electronic equipment created an enormous demand for semiconductors, particularly dynamic memories and microprocessors. U.S. merchant semiconductor manufacturers, afraid of a repeat of 1982's false recovery, initially hesitated to gear up production. Finally convinced at mid-year that the recovery was real, producers started to bring additional capacity on-stream, but lead times continued to stretch out as demand picked up more and more momentum.

Even another jump in semiconductor imports from Japan, which went up 56.4 percent to just under $0.9 billion, could not prevent increasingly longer lead times. Supplies of the workhorse 64K RAM were especially tight, although five major U.S. merchant producers as well as six big Japanese makers were shipping in volume, with each group supplying half the market. While this shortage played havoc with end users' production schedules, it turned the 64K chip into a consistently profitable part for both American semiconductor manufacturers and their Japanese rivals.

The 1983 upturn in U.S. business investment took some of the pressure off copier vendors, which had expanded sales during the recession by aggressively cutting prices, but competition remained heated. With four models of its new generation of sophisticated copiers on the market, Xerox Corp. finally had the products and the prices to go head-to-head with Japanese manufacturers in the low-volume and mid-size segments of the business. Japanese makers successfully defended their market share by continuing to expand the range of convenience features available on the inexpensive desktop machines making up the low-volume segment and increasing their lineup of high-performance models in the medium-volume segment.

The real marketing coup, though, was Canon Inc.'s January introduction of a personal copier. A big seller from the start, this versatile, low-cost machine apparently accounted for a significant part of the growth in U.S. copier sales last year. It was also the main factor behind the expansion of imports, which jumped 37 percent in volume to 542,812 units and 12.4 percent in value to $0.7 billion.

The rebound in U.S. equipment spending, while strong in the aggregate, bypassed a number of important capital goods industries, including machine tools. Machine tool orders finally bottomed out in 1983, but with civilian aerospace companies, construction equipment and farm machinery manufacturers and oilfield equipment suppliers still in the doldrums, there were few signs of the sustained order rebound the domestic industry needed to pull out of its recession.

Japanese machine tool builders were hardly more successful at winning volume contracts for their machining centers, numerically controlled lathes and other technologically innovative products than American makers. At the same time, though, deep discounts and other sales incentives enabled American distributors of Japanese-made machine tools to snare enough new business to whittle down stocks, which were kept at manageable levels by a 29.3 percent drop in imports to under $0.5 billion.

Consumer Goods With consumer spending on durables propelling the economy out of recession in 1983, sales of consumer electronic products exploded. Both color television sets and portable tape systems set new records, while audio equipment staged a healthy comeback. The hottest sellers, though, were video cassette recorders (VCRs). VCR sales doubled in 1983 to an estimated 4.1 million units, paralleling the jump in imports of Japanese-made machines, which hit 4,797,373 units valued at $1.6 billion.

What unleashed this boom was the arrival of more affordable prices in the wake of the industry's 1982 price war. From around $800 in 1980, prices on low-end VCRs plunged to under $500 in 1983 and in some cases even broke through the $400 floor. The availability of a wider range of pre-recorded programming and the increased number of stores renting movies and music videos also pumped up demand. So did the introduction of easier-to-operate machines and portable and high-fidelity models. The only cloud in the picture was profits. Already squeezed as a result of the price war, profits at both the manufacturer level and the distributor level came under more pressure last year.

The surge in consumer spending on durables also breathed some life into the hard-hit motorcycle market. With unemployment still high among young male blue-collar workers and stiff extra tariffs pushing up the prices of heavyweight motorcycles, however, the sales recovery was spotty. All-terrain vehicles (ATVs) were big sellers for the second consecutive year. In addition, the introduction of new street models in the 450-749 cubic centimeter displacement category generated buying activity in this segment.

While other parts of the market continued to stumble along, Japanese motorcycle makers did achieve their primary objective for 1983: bringing 1982's huge stocks under control. A big cut in imports, which fell 40.4 percent in volume to 511,519 units and 30.7 percent in value to $0.7 billion-plus, trimmed the inventory overhang at the distributor level, and bargain prices helped dealers move stocks of older-model motorcycles.

Intermediate Goods The economic recovery gave the U.S. steel market a much-needed shot in the arm in 1983. Expanding output in the automotive industry—steel's single largest customer—and rebounding production of appliances pumped up demand for cold-rolled, hot-rolled and galvanized sheets, whether domestically manufactured or imported from Japan. The turnaround in the construction industry boosted shipments of flat-rolled products, too, as did bigger production of building products and plumbing equipment. Increased construction activity also raised demand for structural shapes and wire rods from both American and Japanese mills, while some pickup in the can industry pulled in more imports of tin and black plate.

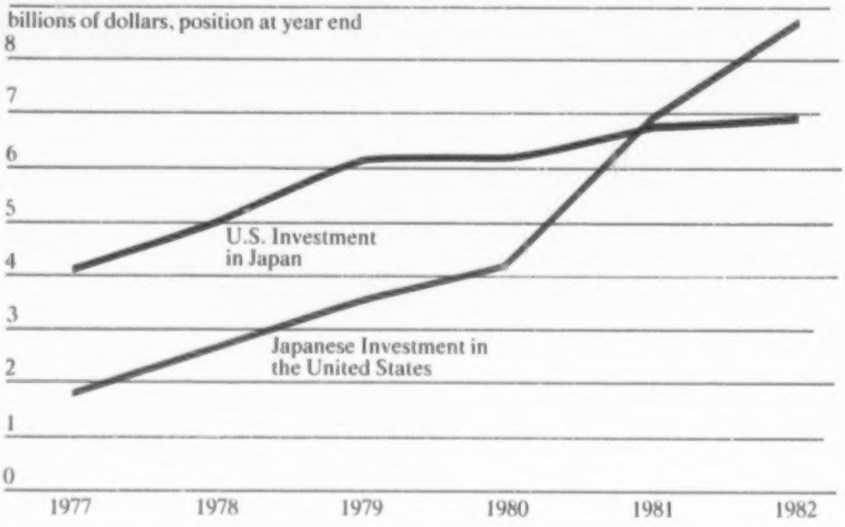
Despite the recovery-generated strength in these and a handful of other steel markets, U.S. deliveries of Japanese-made steel tumbled in 1983 to their lowest level since 1965. The cause was not hard to track down: the huge inventories of oil-country tubular products and large diameter line pipe sitting in U.S. warehouses. A big jump in domestic oil and gas exploration and development in 1980 and again in 1981, coupled with capacity constraints in the American steel industry, had turned tubular products into the top steel imports from Japan by 1981. Drilling activity slowed in 1982, but Japanese mills, misreading the market, failed to turn off the export spigot fast enough, and stocks of imported tubes and pipes, like inventories of domestically made products, soared. With lower energy prices causing another drop in exploration and development in 1983, Japanese exporters had no choice but to pare U.S.-bound shipments of oil-country tubular products and line pipe to the bone. The cutback was so deep that it reduced the total volume of imports 18.3 percent to 4,236,915 tons and sliced the value of purchases 41 percent to just $2.1 billion.

Direct Investment Activity

The United States in Japan

The Japanese attitude toward direct foreign investment has undergone several transformations since the end of World War II. Foreign investors who thought the welcome mat was out have had it rudely yanked from under them. Official policy has been hostage to the changing needs of the economy as perceived by the government and business community. The demands of rebuilding a war-torn economy and setting infant industries on their feet while maintaining adequate foreign reserves shaped the foreign-exchange control laws—the gospel for foreign investors. While these strictures were loosened in a series of steps beginning in 1967 and largely abandoned in the new foreign-exchange control law of 1980, direct foreign investment in Japan still lags behind that in other industrial countries. As the Japanese government admits, more must be done to promote this activity if Japan is to continue to prosper in a capital-poor world.

Direct Investment



Source: Department of Commerce

Investment Promotion In the forefront of Japan's effort to attract foreign investors are local governments in rural areas. Because of declining employment opportunities and an end to the flow from rural to urban areas, local officials find themselves faced with a steadily worsening unemployment problem. In an era of austerity, the public works fountain dries up, necessitating other employment measures. The idea of generating jobs with foreign money is quite unusual, especially coming from local governments, and a great deal of effort has been spent on public relations to get the word out that foreign investors are welcome. Industrial parks and infrastructure improvements have been established and local tax laws amended to create incentives for investors. Without the blessing of central authorities, however, few foreign companies have been willing to accept the local offers.

The central government has finally started to augment local promotional efforts by providing support services and introducing the "Technopolis" program. For example, MITI's industrial guidance division is supplying foreign investors with information on sites and facilities that meet their investment needs. While it is difficult to convince foreigners that MITI welcomes investment from abroad in Japan, a computerized English-language service can check over 2,200 sites for investment compatibility and tax incentives.

Information is only the first level of assistance the central government offers. The Japan External Trade Organization (JETRO) is providing potential investors with consulting and translation services at its overseas offices. A new office of investment promotion has been established, making it even clearer that the government is serious about attracting foreign investors. Moreover, the Japan Development Bank (JDB) has started to provide loans to foreign companies building facilities in Japan.

Perhaps the most widely touted new central government investment promotion plan is MITI's "Technopolis" program, which targets regional investment by domestic and foreign high technology companies. Through this program, the government hopes to improve the performance of small- and medium-sized firms as well as disperse new industries more evenly around the country. Local authorities that meet MITI guidelines in terms of location, labor resources, educational facilities and infrastructure can obtain ministry-provided information and consulting services as well as financial help from the JDB and Hokkaido-Tohoku Development Corp.

Aggregate Investment Up Foreign investment in Japan increased significantly in FY 1983-March 1984 period to 2,363 cases. From 1,074 transactions valued at $749 million in FY 1982, the number of foreign investments rose 2.6 times in the April 1983-March 1984 period to 2,363 cases while the value of investments went up 8.5 percent to $813 million, a new record. (Included in these figures are equity investments, bond issues, technology licensing contracts and portfolio investments.) There was also an upsurge of 20 percent in the number of foreign affiliates establishing factories on plots 1,000 square meters or larger; over one-third of the new plants will produce high technology products. According to a MITI survey, many medium-sized and smaller firms took the plunge into the

Japanese market in FY 1983, a clear signal of the improved investment climate.

Foreign equity investments in Japan added up to ¥119.424 million ($519 million) in calendar 1983, representing 639 cases, compared with 476 cases worth ¥113.821 million ($495 million) in 1982. There was only a slight rise in the amount of money invested in new ventures (3.8 percent or $10 million), but a large increase in the number of such operations (321 versus 241). Investments in existing firms plummeted in value from ¥45 billion ($197 million) in 1982 to just under ¥10 billion ($42 million) in 1983, but the number of transactions expanded to 185 from 129, translating into an average decrease in value per investment from ¥351 million ($1.5 million) to ¥53 million ($229,000). The main source of growth in foreign direct investment in Japan in 1983 was additions to existing holdings. One hundred thirty-three overseas investors channeled ¥39 billion ($169 million) into their Japanese operations, highlighting the fact that foreign companies already in the Japanese market are not only committed to remaining there but are aggressively pursuing an expanded presence.

American companies continued to be the major foreign direct investors in Japan in 1983, accounting for three-fourths of the funds invested. Far behind were investors from Hong Kong, the United Kingdom and West Germany, with shares ranging from 2 percent to 6 percent. Interestingly, equity investments by Middle Eastern countries remained scarce; the inflow from these nations represented just 0.2 percent of the foreign money invested in the Japanese economy in 1983.

Data on foreign investment by type of business showed a clustering around the export/import field as well as a growing emphasis on high technology. Electronic equipment was particularly popular, with an increasing number of computer-related firms entering Japan. Much of the investment in the chemical sector went into pharmaceutical production or marketing, as offshore firms tried to broaden their foothold in the lucrative Japanese market. Closer analysis of foreign entries into the more mundane industries such as food products or apparel indicated a strategy based on supplying products that are of high quality or distinctly foreign in character. Finally, investments in the service sector provided consulting, management, marketing or design operations to a wide range of businesses, presumably putting them in head-to-head competition with the established Japanese trading companies.

Several industries continued to be notable for their lack of appeal to foreigners: construction, glass and stone manufacturing, transportation, warehousing and wholesaling. For the most part these are industries where foreigners do not provide significantly superior products. Moreover, they are slow growing markets with plenty of entrenched domestic competition.

Patterns of U.S. Investment The structure and purpose of American equity investments in Japan in 1983 continued to point to a pattern of investment strategies based upon the field of entry. In general, high technology firms providing established goods or services opt for the creation of a majority-owned subsidiary, often a wholly owned one, to service the Japanese market in the near-term and the Asian market in the future. Vendors of unique products usually set up their own marketing and distribution subsidiary as well. In contrast, U.S. high technology firms involved in costly research and development programs seek Japanese partners for joint ventures, cross licensing, production and marketing agreements. Joint ventures are also a popular alternative for unusual products, particularly electric and electronic components and photographic equipment.

Buying into established firms in the same or related field is a desirable strategy for many American firms seeking a toehold in Japan. Some problems exist with this method, however, since a Japanese firm that is receptive to foreign offers is often in trouble. Merck & Co., Inc.'s acquisition of a half interest in foundering Banyu Pharmaceutical Co., Ltd. in 1983 is the most publicized example of this situation. Smaller Japanese firms are often receptive to stock acquisitions by foreigners because in a fiercely competitive market, tie-ups of this nature provide access to American products. At the same time, they offer Americans well-established Japanese contacts. This path also serves giants like General Motors Corp., which is seeking a solution to manufacturing competitively priced subcompact cars. GM's links with Isuzu Motors, Ltd. and Suzuki Motors Co., Ltd. form the basis of a good relationship in the fiercely competitive auto industry.

Joint ventures, which were once the preferred way for foreign companies to penetrate the Japanese market, lost more of their sheen in 1983, continuing a trend that has been evident since the start of the 1980s. Many American partners are either selling their shares or buying out their Japanese partners in an effort to put things back on track. Much of the problem seems to stem from management incompatibility. The Japanese system of decisionmaking by consensus is famously time consuming and American companies have found it very frustrating. On the other hand, Japanese companies are usually cautious in their dealings with foreign partners because they do not completely trust the alliance and thus never allow a solid relationship to develop—a Catch-22 situation. Sobered by their peers' experiences, many companies on both sides of the Pacific are negotiating joint ventures with more realistic expectations—a good sign for future success.

Japan's services industry is in a state of rapid development, favoring foreign firms that have an edge in experience. Wholly owned subsidiaries or majority-owned ventures seem to be the most popular vehicles. The wholly owned route is favored by many American software firms or computer consulting services. Vendors of management services often establish a joint venture with a large Japanese company linked to numerous business partners. Financial service companies are planting seeds in the rich Japanese market and as liberalization of this market proceeds over the coming years, ample harvests can be expected.

A pattern of building upon company strengths or seeking partners to shore up weak areas emerges from the data on American investment in Japan. What is encouraging is the fact that many U.S. firms are going into Japan with their own subsidiary and challenging the Japanese head-on. While this speaks well of American entrepreneurial spirit, it also indicates the change in Japan's attitudes toward foreign investors.

Successful investment in Japan is still not an easy task, however. The competition for labor and markets is very severe. While few legal barriers remain, many bureaucratic and cultural restrictions exist. Japanese companies are willing to put up with foreign competitors in their own market; they are probably unhappy that the government is now promoting such competition. The perception that the Japanese economy somehow needs protection from foreign invaders is still strong within the lower levels of the bureaucracy. As foreign firms in Japan prove their loyalty and commitment to Japanese customers, this attitude may begin to abate. The process, however, will be long and trying.

Japan in the United States

Japanese foreign direct investment activity continued on the upswing in fiscal year 1983, and awareness of Japan's role as a capital supplying country also increased. Japanese funds flowed abroad to seek higher returns and to cool the fires of protectionism.

Continued Boom The 1980s marked the coming of age for Japanese corporations as international investors. At the start of the decade, their foreign direct investments added up to a rather modest $31.8 billion. Over the four years through March 1984, however, Japanese businesses pumped almost the same amount of money into overseas equity holdings as they had in the previous 29 years, pushing cumulative outlays up to $61.3 billion. In FY 1983 alone, foreign direct investment jumped by nearly $8.2 billion, buoyed by the strong recovery of the U.S. economy and improved economic conditions in other areas of the world, healthier corporate balance sheets at home, and a dip in the dollar cost of investing overseas resulting from the rise in the yen's value. An increase of 5.7 percent over FY 1982's tally, the outflow of direct investment funds during the April 1983-March 1984 period was second only to the level hit in FY 1981, when the start of several big resource development projects and a large expansion of loans from parent companies to overseas affiliates in response to the lower cost of raising funds in Japan swelled foreign investment to a record $8.9 billion.

The United States remained the prime location for Japanese foreign investments in FY 1983, attracting another $2.6 billion. Nearly $1 billion was channeled into U.S. production facilities, with much of this money going into plants to manufacture electronics equipment, automotive products, metals and chemicals. Japanese corporations were also active in the U.S. banking, finance and insurance sector, although this activity was dominated by one transaction—Fuji Bank, Ltd.'s acquisition of two commercial finance units from Walter E. Heller International Corp. for $425 million. Still, the flow of investment funds into the United States during the April 1983-March 1984 period was down 6.3 percent from FY 1982's record total, largely because expenditures for sales organizations returned to more normal levels.

Japanese corporate investors also continued to expand their stake in Europe in FY 1983, adding almost $1 billion to their holdings. This investment closely matched the spending pattern in the United States: more money was earmarked for onshore manufacturing, particularly in the electronics field, and for banking, finance and insurance affiliates, while funding of European sales organizations was scaled back. Direct investments in Australia, in contrast, plummeted to less than $0.2 billion as Japanese companies turned cautious about expanding capacity in the mining and nonferrous metals industries.

While Japan's expanding investment presence in the United States and Europe has captured the most media attention, the main areas of stepped-up activity in FY 1983 were Asia and Latin America. Equity investments in Asia climbed by a third to over $1.8 billion. Two-fifths of this money went into manufacturing, particularly into industries in which Japan has a competitive disadvantage because of either higher labor costs (textiles, for example) or higher material costs (petrochemicals). There was also increased investment in the services and real estate industries in Asia. In Latin America, where direct investments jumped by a fourth to $1.9 billion, the transportation industry remained the main attraction, although Japanese firms put more money into production facilities as well.

Stake in United States Despite the expanded outflow of investment funds to Asia and Latin America during FY 1983, North America solidified its position as the top location for Japanese overseas investments. As of March 1984, corporate investors had a $17.9 billion stake in the United States and Canada, with $5.2 billion invested in the manufacturing sector, particularly in electronics and transportation equipment, $6 billion in commercial businesses and $2.1 billion in the banking, finance and insurance industries. Nipping at North America's heels was Asia, where Japanese corporations had equity holdings of $16.4 billion, concentrated in metals, chemicals, textiles and other manufacturing activities ($6.5 billion) and mining ($5.6 billion). Trailing North America and Asia as an overseas investment site for Japanese companies was Latin America. Out of the $10.7 billion that had been invested in this region through FY 1983, $3.9 billion had gone into production facilities and another $2.2 billion had been spent on transportation services.

With nearly $2.6 billion going into offshore production plants during the April 1983-March 1984 period, manufacturing investments continued to represent the leading edge of Japanese capital spending abroad (see accompanying table). By the end of the fiscal year, Japanese corporations had funneled $19.5 billion into this sector, including $6.5 billion in Asia, $5.2 billion in North America and $3.9 billion in Latin America. Mining projects were a distant second to manufacturing facilities as the destination for Japanese foreign investment funds. Nearly $10.7 billion had been invested through this past March, divided almost evenly between Asian countries, especially Indonesia, and the rest of the world. The third-largest concentration of money—$9.6 billion worth—was in the commercial area, with over three-fifths of this amount invested in American and Canadian sales affiliates.

Update of JEI Manufacturing Investment Survey

Japanese investment in American production facilities resumed its upward course in 1983, spurred by the rise in the yen's value as well as the U.S. economic rebound. The 32 manufacturing companies established or acquired by corporate investors boosted the year-end total of Japanese-affiliated manufacturers to 334 firms, including 25 in which Japanese parent companies had minority interests. The majority-owned businesses provided jobs for over 70,000 American workers, and they indirectly created employment opportunities for thousands of other people through their purchases of goods and services.

1983 Investments Japanese investment activity in the U.S. manufacturing sector, on the upswing since 1978, got back on track in 1983 after being derailed in 1982 by the combined forces of a depreciating yen, poor corporate earnings at home and depressed economic conditions in this country. Thirty-one manufacturing companies in which Japanese investors had a majority stake were established or acquired in 1983, compared with 1982's curtailed total of 20 such investments. In addition, one Japanese corporation obtained a minority interest (defined as a shareholding of at least 10 percent but less than 50 percent) in an American manufacturing firm, although this was off from three the year before and 1981's tally, when eight of the 40 manufacturing investments credited to Japanese businesses involved minority shareholdings.

The appreciation of the yen from 1982's ¥249 average to the ¥238 level last year certainly gave Japanese corporations a greater incentive to invest in the United States since it reduced the yen cost of building plants here or of acquiring existing American companies and, at the same time, increased the dollar cost of supplying U.S. markets through exports. In addition, the U.S. economic recovery provided a more conducive environment for Japanese investment than 1982's business slump. Generally healthier corporate balance sheets, particularly for the small- and medium-size companies that form the backbone of Japanese investors in the United States, also helped to promote capital spending in the manufacturing area in 1983.

The 32 manufacturing companies identified in JEI's 1983 update survey generally matched the profile of Japan's earlier manufacturing investments in the United States. There were some minor but interesting differences, though. For example, the investment mix between new plant construction and acquisitions, which had tilted more toward an even split in 1981 and 1982, reverted to the two-to-one ratio that characterized the approach of Japanese corporations establishing a production base in the United States in the period before 1981. Twenty-two of the 32 companies joining the ranks of Japanese-affiliated U.S. manufacturing businesses in 1983 were the result of new investments, including the production units set up by repeat investors like Fujitsu, Ltd., Oki Electric Industry Co., Ltd., Sony Corp., Honda Motor Co., Ltd., Nihon Radiator Co., Ltd. and Nippondenso Co., Ltd. and the manufacturing subsidiaries formed by such newcomers as Kanegafuchi Chemical Industry Co., Ltd., Ebara Corp. and Ishikawajima-Harima Heavy Industries Co., Ltd.

Though far outnumbered, some of the acquisitions that took place in 1983 overshadowed the new investments. Two involved fairly sizable transactions with *Fortune 500* companies: Diamond Shamrock Corp.'s spinoff of its agricultural chemical and animal health operations into a joint venture with Showa Denko K.K. and the purchase of G.D. Searle and Co.'s specialty gas business by partners Nippon Sanso K.K. and UGI Corp. of Valley Forge, Pennsylvania. Another noteworthy acquisition was the purchase of the dominant U.S. maker of teenage lingerie by Wacoal Corp. The takeover of an American producer of welded steel fittings by Sumitomo Metal Industries, Ltd. and Sumitomo Corp. was notable because it illustrated the problems of foreign companies acquiring domestic manufacturers that do work for the Department of Defense—problems that killed one purchase planned by a Japanese company in 1983 and contributed in part to another Japanese corporation selling a previously acquired U.S. maker. Perhaps even more significant than these four acquisitions was the purchase of Howmet Aluminum Corp. by its larger competitor, Alumax Inc., which is jointly owned by Mitsui & Co., Ltd., Nippon Steel Corp. and AMAX Inc. Through this transaction, the fast-rising number-four U.S. primary aluminum producer increased its primary capacity by half and strengthened its already strong fabricating capability.

Acquisitions were important as well because they partly skewed two aspects of the composite picture of Japanese-affiliated manufacturers in the United States. While all the companies newly set up by Japanese investors in 1983 had production facilities at a single location, as do the vast majority of established ventures, Alumax's Howmet Aluminum purchase and the acquisition of specialty gas producer Matheson Gas Products Inc. swelled the year's plant tally by a record 83 facilities. Also helping to alter this piece of the profile, though, were American Foods Corp., a Nakano Vinegar Co., Ltd. subsidiary, and Mitsui's Nutrius Inc. unit, both of which acquired their fourth domestic production base during 1983, and TNS Mills, Inc., a Tsuzuki Spinning Co., Ltd. affiliate, which opened its third U.S. manufacturing facility.

The typical employment scale of Japanese manufacturing operations in the United States was also affected by 1983's major acquisitions, since these companies had payrolls bigger than the under-50-person work forces characteristic of most existing or new majority-owned production ventures. This divergence obviously reflected the difference between well-established producers and firms that were just putting their plants in operation, but it also pointed up the fact that some companies listed as manufacturing concerns really only do a limited amount of assembly work. In a small but growing number of instances, however, relatively low employment numbers were the result of highly automated production processes.

Year-End Tally At the end of 1983, Japanese corporate investors held controlling interests in 309 U.S. manufacturing companies, including nine firms scheduled to go onstream in 1984. While small- and medium-size operations dotted the list, some Japanese production subsidiaries qualified as big businesses, whether measured by sales, investment, employment or all three indicators. With sales of $1.5 billion in 1983, Alumax, in fact, ranked among the top U.S. industrial concerns, placing 230 on *Fortune*'s roster for the year, in part because of the acquisition of Howmet Aluminum. An integrated aluminum manufacturer, Alumax had 91 plants and fabricating warehouses in 29 states and more than 13,000 people on its payroll.

Other big ventures included the two Japanese-owned automotive assembly plants in the United States: Honda of America Manufacturing, Inc., which announced plans to double the capacity of its Ohio car plant as the facility neared full production with a work force approaching 2,000 employees, and Nissan Motor Manufacturing Corp. U.S.A., which had hired close to 2,000 workers at its Tennessee compact truck plant. Some of the consumer electronics companies also numbered among the largest Japanese manufacturing operations in this country. Sony Corp. of America employed 1,600 workers at its San Diego, California color television plant, while 1,500 people turned out cassette tapes at Sony Magnetic Products Inc.'s Alabama factory. Sanyo Manufacturing Corp., which had 2,000 employees on the payroll of its Arkansas plant, produced color televisions and microwave ovens. The same two product lines were manufactured as well by the 1,350 production workers at Matsushita Industrial Co.'s facility in the Chicago, Illinois suburbs. Rounding out the list of big investments was Kyocera International, Inc., which employed 1,700 people at three plants in San Diego, California that made ceramic packages for integrated circuits and electronic components.

The 309 U.S. manufacturing companies in which Japanese investors owned a majority stake at year-end 1983 had 479 plants in operation or under construction at that time. California, home to 128 plants concentrated in the industrial and consumer electronics field, continued to run away with top honors in the stiff competition among states for Japanese investment, despite a renewed chorus of complaints about the state's unitary tax system. Helped by Alumax's purchase of Howmet Aluminum, Texas leapfrogged two positions into second spot with 35 Japanese-owned manufacturing facilities. Holding on to third place was New Jersey, the site of 27 plants, although Georgia, with 25 factories, was nipping at its heels. Next on the roll were Alaska and Pennsylvania, both of which had attracted 21 plants, followed by Illinois and Washington, with 20 facilities each. The list of other states with relatively large numbers of Japanese-affiliated production operations—North Carolina (19), Michigan (15), New York (15), Ohio (13), Tennessee (11) and Indiana (10)—proved once again that, outside of California, Japanese corporate investors in the United States have not shown the marked preference for Sunbelt or southeastern U.S. production locations that many American observers ascribe to them.

Color televisions, microwave ovens, integrated circuits, communications equipment, bearings and machine tools were among the product lines where Japanese companies had the largest number of U.S. manufacturing facilities. In deciding to supply these products from onshore plants rather than from factories in Japan, producers were influenced in varying degree by the need to cut transportation costs, streamline distribution, maintain closer customer contact and offset the yen's appreciation. For many makers of these products, though, the threat of a protectionist backlash or the erection of trade barriers tipped the scales in favor of U.S. production.

In other product lines where Japanese investors were well represented, like fish processing, lumber and wood products, and processed foods, the availability of raw materials was a major drawing card. Makers of plastic products and certain chemicals were attracted to this country by its less expensive chemical intermediates, while lower utility rates in tandem with relatively new plant and equipment helped make Alumax a profitable investment for Mitsui and Nippon Steel. Moreover, an expanding number of Japanese companies, faced with limited opportunities for growth at home, moved into the U.S. manufacturing sector, primarily through takeovers, to boost earnings. Finally, parts suppliers increasingly set up American production facilities, drawn here by the onshore manufacturing activities of the Japanese end users of their products and/or big contracts from U.S. companies. This trend was particularly obvious in the automotive field, where at least 17 Japanese-affiliated component manufacturers were in operation in 1983 or had plants under construction, but it was also noticeable in other industries like semiconductors.

Whatever the motives for building or acquiring domestic production facilities, Japanese-affiliated manufacturing companies were an important source of jobs for American workers in 1983, both directly and indirectly through their purchases of goods and services. The 300 majority-owned manufacturing concerns already in operation at year-end had approximately 73,000 people on their payrolls, including roughly 7,400 added as a result of 1983 investment activities. Another 800 or so positions were expected to be generated when the nine factories still under construction at the end of the year went onstream.

Appendix A · Election Results in Japan

Table 1: Lower House Election Results

	Number of Candidates		Seats Won		Percent of Vote Won	
	1980	**1983**	**1980**	**1983**	**1980**	**1983**
Liberal Democratic Party (LDP)	310	337	284	250	47.9%	45.8%
Japan Socialist Party (JSP)	149	144	107	112	19.3	19.5
Clean Government Party (Komeito)	64	59	33	58	9.0	10.1
Democratic Socialist Party (DSP)	50	54	32	38	6.6	7.3
Japan Communist Party (JCP)	129	129	29	26	9.8	9.3
New Liberal Club (NLC)	25	17	12	8	3.0	2.3
Shaminren	5	4	3	3	0.7	0.7
Minor Parties	42	18	0	0	0.2	0.1
Independents	61	86	11	16	3.5	4.9
Total	835	848	511*	511	100.0	100.0

*The lower house had 13 vacancies between 1980 and 1983.

Table 2: Factional Power Balance in the LDP*

	Lower House			Total
Faction	**Before the Election**	**After the Election**	**Upper House**	**After the Election**
Tanaka	65	63	51	114
Suzuki	62	50	27	77
Fukuda	46	40	25	65
Nakasone**	48	51	9	60
Komoto	30	28	8	36
Ishihara (formerly Nakagawa)	6	7	1	8
Independents	31	22	15	37
Total	288	261	252	513

*Includes two non-LDP members, Kakuei Tanaka (Tanaka faction) and Takayuki Sato (Nakasone faction), who left the LDP after they were accused in the Lockheed scandal.

**The Nakasone faction after the election includes the former Watanabe group and others.

Table 3: Popular Vote by Party

	1976	**1979**	**1980**	**1983**
LDP	249 (41.78%)	248 (44.59%)	284 (47.88%)	250 (45.76%)
JSP	123 (20.69)	107 (19.71)	107 (19.31)	112 (19.49)
Komeito	55 (10.91)	57 (9.78)	33 (9.03)	58 (10.12)
DSP	29 (6.28)	35 (6.78)	32 (6.60)	38 (7.27)
JCP	17 (10.38)	39 (10.42)	29 (9.83)	26 (9.34)
NLC	17 (4.18)	4 (3.02)	12 (2.99)	8 (2.36)
Shaminren	— —	2 (0.68)	3 (0.68)	3 (0.67)
Independents	21 (5.70)	19 (4.89)	11 (3.48)	16 (4.99)
Total Percentage of Vote	73.45	68.01	74.57	67.94

Note: In each column the figures at top indicate the number of seats won while those in parentheses represent the share of the vote won.

Table 4: The Second Nakasone Cabinet

Name	Position	Age	Faction
Yasuhiro Nakasone	Prime Minister	65	Nakasone
Eisaku Sumi	Justice Minister	63	Suzuki
Shintaro Abe*	Foreign Minister	59	Fukuda
Noboru Takeshita*	Finance Minister	59	Tanaka
Yoshiro Mori	Education Minister	46	Fukuda
Kozo Watanabe	Health and Welfare Minister	51	Tanaka
Shinjiro Yamamura	Agriculture, Forestry and Fisheries Minister	50	Tanaka
Hikosaburo Okonogi	International Trade and Industry Minister	55	Nakasone
Kichizo Hosoda	Transportation Minister	71	Fukuda
Keiwa Okuda	Posts and Telecommunications Minister	56	Tanaka
Misoji Sakamoto	Labor Minister	60	Komoto
Kiyoshi Mizuno	Construction Minister	58	Suzuki
Seiichi Tagawa	Home Affairs Minister	65	NLC
Takao Fujinami	Chief Cabinet Secretary	51	Nakasone
Ichiro Nakanishi	Director General, Prime Minister's Office	68	Fukuda
Masaharu Gotoda†	Director General, Administrative Management Agency	69	Tanaka
Yuko Kurihara	Director General, Defense Agency	63	Suzuki
Toshio Komoto	Director General, Economic Planning Agency	72	Komoto
Michiyuki Isurugi	Director General, Science and Technology Agency	70	Suzuki
Minoru Ueda	Director General, Environmental Agency	69	Tanaka
Takashi Moguchi	Director, Cabinet Legislative Bureau	62	Ind.

*Retained from first Cabinet.
†Changed positions from first Cabinet.

* * *

LDP Party Positions

Name	Position	Age	Faction
Rokusuke Tanaka	Secretary General	60	Suzuki
Shin Kanemaru	Chairman, Executive Council	69	Tanaka
Masayuki Fujio	Chairman, Policy Affairs and Research Council	66	Fukuda

Appendix B · Statistical Tables

Table 1: Japan's Gross National Product at 1975 Constant Prices, 1979-1983

(in billions of yen, seasonally adjusted, quarterly totals at annual rates)

	1979	1980	1981	1982	1983(p)
Gross National Product	¥181,136.8	¥189,787.2	¥197,462.4	¥203,908.2	¥210,112.7
	(5.2%)	(4.8%)	(4.0%)	(3.3%)	(3.0%)
Personal Consumption Spending	100,606.3	101,871.8	102,637.2	106,945.2	110,510.8
	(5.9%)	(1.3%)	(0.8%)	(4.2%)	(3.3%)
Private Residential Construction	12,180.6	11,032.9	10,766.7	10,685.1	10,182.0
	(-1.0%)	(-9.4%)	(-2.4%)	(-0.8%)	(-4.7%)
Private Fixed Nonresidential Investment	29,738.8	32,129.2	33,918.7	35,122.8	35,810.5
	(11.8%)	(8.0%)	(5.6%)	(3.5%)	(2.0%)
Change in Business Inventories	1,694.6	1,865.3	1,828.4	1,798.9	551.9
	(209.0%)	(10.1%)	(-2.0%)	(-1.6%)	(-69.3%)
Government Current Expenditures	17,391.9	17,895.0	18,820.1	19,258.5	19,725.2
	(4.3%)	(2.9%)	(5.2%)	(2.3%)	(2.4%)
Government Fixed Investment	18,403.2	17,814.6	18,473.1	18,474.8	18,435.4
	(3.1%)	(-3.2%)	(3.7%)	(0.0%)	(-0.2%)
Change in Government Inventories	114.9	-228.4	-290.6	-333.6	-334.4
	(-72.5%)	(*)	(*)	(*)	(*)
Net External Sector	1,006.4	7,406.8	11,308.8	11,956.5	15,231.3
	(-63.7%)	(636.0%)	(52.7%)	(5.7%)	(27.4%)
Exports of Goods and Services and Factor Income Received	28,396.4	33,722.2	39,071.8	40,424.0	42,357.0
	(6.6%)	(18.8%)	(15.9%)	(3.5%)	(4.8%)
Imports of Goods and Services and Factor Income Paid	27,390.0	26,315.4	27,763.0	28,467.4	27,125.8
	(14.7%)	(-3.9%)	(5.5%)	(2.5%)	(-4.7%)

(continued)

Table 1: Japan's Gross National Product at 1975 Constant Prices, 1979-1983 (continued)

(in billions of yen, seasonally adjusted, quarterly totals at annual rates)

	January-March 1982	April-June 1982	July-September 1982	October-December 1982	January-March 1983	April-June 1983	July-September 1983	October-December 1983(p)
Gross National Product	¥200,672.2 (3.3%)	¥203,468.5 (5.7%)	¥205,334.3 (3.7%)	¥206,040.4 (1.4%)	¥206,423.9 (0.7%)	¥208,683.0 (4.4%)	¥211,856.1 (6.2%)	¥213,496.9 (3.1%)
Personal Consumption Spending	104,855.1 (4.7%)	106,397.3 (6.0%)	107,292.8 (3.4%)	108,913.6 (6.2%)	109,712.5 (3.0%)	109,915.3 (0.7%)	110,848.1 (3.4%)	111,433.3 (2.1%)
Private Residential Construction	10,424.2 (-3.2%)	10,356.8 (-2.6%)	10,642.5 (11.5%)	11,370.6 (30.3%)	10,969.5 (-13.4%)	9,577.3 (-41.9%)	9,904.1 (14.4%)	10,464.2 (24.6%)
Private Fixed Nonresidential Investment	34,738.4 (3.7%)	35,076.5 (4.0%)	35,376.9 (3.5%)	35,290.9 (-1.0%)	35,070.6 (-2.5%)	35,400.2 (3.8%)	36,002.0 (7.0%)	36,685.8 (7.8%)
Change in Business Inventories	2,298.7 (63.6%)	2,184.2 (-18.5%)	1,775.9 (-56.3%)	939.5 (-92.2%)	53.4 (*)	884.8 (*)	400.4 (-95.8%)	869.6 (*)
Government Current Expenditures	19,158.7 (1.8%)	19,180.1 (0.4%)	19,298.6 (3.5%)	19,404.7 (2.2%)	19,502.5 (2.0%)	19,622.4 (2.5%)	19,843.5 (4.6%)	19,945.2 (2.0%)
Government Fixed Investment	17,831.4 (-9.0%)	18,803.9 (23.7%)	18,993.8 (4.1%)	18,406.6 (-11.8%)	17,875.3 (-11.1%)	18,768.8 (21.6%)	18,932.2 (3.5%)	18,375.2 (-11.3%)
Change in Government Inventories	-107.9 (*)	-133.8 (*)	-264.0 (*)	-806.3 (*)	-291.3 (*)	-206.0 (*)	-165.6 (*)	-676.3 (*)
Net External Sector	11,473.7 (16.8%)	11,603.5 (4.6%)	12,217.8 (22.9%)	12,520.7 (10.3%)	13,531.5 (36.4%)	14,720.2 (40.0%)	16,091.4 (42.8%)	16,399.9 (7.9%)
Exports of Goods and Services and Factor Income Received	40,466.0 (5.0%)	40,231.3 (-2.3%)	40,968.3 (7.5%)	40,060.5 (-8.6%)	39,891.5 (-1.7%)	41,108.1 (12.8%)	43,292.3 (23.0%)	44,949.2 (16.2%)
Imports of Goods and Services and Factor Income Paid	28,992.4 (0.8%)	28,627.8 (-4.9%)	28,750.5 (1.7%)	27,539.8 (-15.8%)	26,360.0 (-16.1%)	26,387.9 (0.4%)	27,200.9 (12.9%)	28,549.3 (21.4%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

Table 2: Major Interest Rates in Japan, 1979-1983

(percent per annum)

		Central Bank Discount Rate*	Short-Term Prime Lending Rate	Call Rate**	Average Interest Rate on Loans and Discounts of All Banks*	Savings Deposits*: Commercial Banks: Ordinary Deposits	Savings Deposits*: Commercial Banks: Six-Month Time Deposits	Savings Deposits*: Post Office: Ordinary Deposits	Savings Deposits*: Post Office: One-Year Savings Certificates
1979		6.25%	6.5%	6.34%	7.06%	2.0%	5.25%	3.36%	4.5%
1980		7.25	7.5	10.93	8.27	2.75	6.25	4.08	5.5
1981		5.5	6.0	7.43	7.56	2.25	5.5	3.6	4.75
1982		5.5	6.0	6.94	7.15	1.75	5.0	3.12	4.25
1983		5.0	5.5	6.39	7.05	1.75	5.0	3.12	4.25
1982	January	5.5	6.0	6.58	7.46	1.75	5.0	3.12	4.25
	February	5.5	6.0	6.58	7.34	1.75	5.0	3.12	4.25
	March	5.5	6.0	6.68	7.26	1.75	5.0	3.12	4.25
	April	5.5	6.0	7.16	7.24	1.75	5.0	3.12	4.25
	May	5.5	6.0	7.17	7.22	1.75	5.0	3.12	4.25
	June	5.5	6.0	7.19	7.19	1.75	5.0	3.12	4.25
	July	5.5	6.0	7.19	7.17	1.75	5.0	3.12	4.25
	August	5.5	6.0	7.18	7.17	1.75	5.0	3.12	4.25
	September	5.5	6.0	6.99	7.18	1.75	5.0	3.12	4.25
	October	5.5	6.0	6.92	7.18	1.75	5.0	3.12	4.25
	November	5.5	6.0	6.69	7.17	1.75	5.0	3.12	4.25
	December	5.5	6.0	6.92	7.15	1.75	5.0	3.12	4.25
1983	January	5.5	6.0	6.64	7.13	1.75	5.0	3.12	4.25
	February	5.5	6.0	6.57	7.12	1.75	5.0	3.12	4.25
	March	5.5	6.0	6.69	7.11	1.75	5.0	3.12	4.25
	April	5.5	6.0	6.3[illegible]	7.10	1.75	5.0	3.12	4.25
	May	5.5	6.0	6.08	7.10	1.75	5.0	3.12	4.25
	June	5.5	6.0	6.20	7.08	1.75	5.0	3.12	4.25
	July	5.5	6.0	6.39	7.06	1.75	5.0	3.12	4.25
	August	5.5	6.0	6.46	7.06	1.75	5.0	3.12	4.25
	September	5.5	6.0	6.53	7.05	1.75	5.0	3.12	4.25
	October	5.0	6.0	6.43	7.04	1.75	5.0	3.12	4.25
	November	5.0	5.5	5.[illegible]9	6.94	1.75	5.0	3.12	4.25
	December	5.0	5.5	6.44	6.81	1.75	5.0	3.12	4.25

*End of period.
**Average for period.

Source: Bank of Japan

Table 3: Money Supply in Japan, 1979-1983

(in billions of yen, average for period)

		Outstanding Money Supply (M_2+CDs)*	Change Over Year-Earlier Period
1979		¥181,223	11.9%
1980		197,872	9.2
1981		215,527	8.9
1982		235,336	9.2
1983		252,640	7.4
1982	January	227,872	10.7
	February	226,605	10.6
	March	229,899	10.5
	April	231,023	9.3
	May	231,816	9.4
	June	234,802	8.8
	July	237,793	9.3
	August	238,272	9.0
	September	239,449	8.9
	October	238,382	8.3
	November	239,866	8.0
	December	248,254	7.9
1983	January	245,391	7.7
	February	243,435	7.4
	March	247,319	7.6
	April	248,538	7.6
	May	249,301	7.5
	June	252,842	7.7
	July	254,603	7.1
	August	254,739	6.9
	September	256,743	7.2
	October	255,522	7.2
	November	256,250	6.8
	December	266,997	7.6

*Includes currency in circulation, demand deposits and time deposits (excluding trust accounts) held by commercial banks, plus certificates of deposit.

Source: Bank of Japan

Table 4: Japan's Industrial Production Index by Sector, 1979-1983

(1980 = 100)

		Total								
		Index	Change Over Year-Earlier Period	Mining	Manufacturing	Iron and Steel	Nonferrous Metals	Fabricated Metal Products	Nonelectric Machinery	Electric Machinery
1979		95.5	7.3%	101.3	95.5	98.4	100.1	102.1	91.7	86.8
1980		100.0	4.7	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		101.0	1.0	97.1	101.0	93.6	95.8	96.4	102.2	113.9
1982		101.3	0.3	96.2	101.4	91.4	92.6	99.0	100.6	125.2
1983		104.9	3.6	95.8	104.9	89.1	95.6	94.1	99.7	149.7
1982	January	92.8	2.8	91.9	92.8	94.0	88.9	87.6	90.3	108.8
	February	98.4	2.2	98.5	98.4	92.1	92.1	90.9	102.6	118.0
	March	108.8	3.4	104.8	108.9	98.5	98.7	103.7	119.1	136.6
	April	103.3	1.4	94.7	103.4	96.0	95.7	102.2	106.3	118.2
	May	98.1	0.9	94.4	98.1	96.4	90.8	96.4	96.1	113.7
	June	103.9	1.2	95.9	104.0	93.7	94.8	106.7	104.2	123.7
	July	104.3	0.2	93.7	104.3	90.9	94.9	107.7	101.0	129.5
	August	95.1	-0.1	87.7	95.1	86.1	84.4	94.5	92.5	119.3
	September	104.9	-0.1	96.6	104.9	87.6	92.9	103.2	109.1	139.1
	October	100.6	-4.0	96.2	100.6	87.9	92.7	99.2	95.0	126.2
	November	102.4	-1.3	97.1	102.5	87.7	93.4	100.9	95.8	132.9
	December	103.2	-2.1	103.3	103.2	86.1	91.6	95.2	95.7	135.9
1983	January	91.4	-1.5	93.3	91.3	84.7	85.6	81.6	88.2	115.7
	February	97.1	-1.3	94.6	97.1	81.5	90.1	86.0	94.2	131.4
	March	108.7	-0.1	104.8	108.7	86.9	97.7	97.8	110.9	154.6
	April	104.4	1.1	96.0	104.5	87.5	94.8	94.7	99.3	140.4
	May	100.3	2.2	91.3	100.3	88.8	91.8	90.3	94.2	134.5
	June	105.9	1.9	95.3	105.9	88.9	97.1	100.4	99.4	148.3
	July	106.8	2.4	89.9	106.9	90.2	97.1	95.9	100.3	153.5
	August	99.9	5.0	89.5	100.0	88.5	90.4	91.4	95.1	143.3
	September	111.5	6.3	96.7	111.6	91.2	98.7	97.0	107.1	173.2
	October	108.8	8.2	96.7	108.9	94.3	100.3	98.4	101.1	159.5
	November	110.5	7.9	98.7	110.6	93.6	101.7	97.2	102.5	166.8
	December	113.1	9.6	102.4	113.2	93.4	101.3	97.7	128.0	175.6

(continued)

Table 4: Japan's Industrial Production Index by Sector, 1979-1983 (continued)

(1980 = 100)

		Transport Equipment	Precision Instruments	Nonmetallic Mineral Products	Chemicals	Petroleum and Coal Products	Pulp, Paper and Paper Products	Textiles	Lumber and Wood Products	Foods
1979		83.7	80.4	97.7	100.5	105.9	99.5	101.4	108.4	100.9
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		105.8	109.4	94.1	99.8	93.8	94.4	98.4	91.2	100.6
1982		99.1	103.5	91.5	102.5	88.4	97.1	97.4	87.4	101.1
1983		94.8	110.3	92.7	108.8	85.7	102.7	96.8	84.6	102.4
1982	January	95.6	95.1	85.5	97.4	98.9	89.7	90.6	80.2	76.4
	February	102.9	101.0	90.0	96.7	93.3	90.6	97.2	83.8	86.6
	March	113.9	112.1	95.4	100.4	93.5	98.2	101.9	90.2	104.1
	April	104.4	107.9	90.8	103.0	89.6	98.2	102.8	89.5	104.3
	May	94.3	95.5	90.0	99.2	83.5	97.0	98.7	85.8	101.4
	June	104.4	110.3	92.9	104.5	76.4	98.3	100.6	89.5	109.8
	July	104.9	107.0	94.8	104.6	87.4	97.8	99.9	90.1	105.8
	August	83.9	97.7	85.9	104.9	87.0	92.4	91.6	82.6	94.2
	September	101.5	107.0	89.7	107.9	83.1	99.0	96.4	88.2	103.8
	October	96.2	102.0	92.7	101.3	85.7	101.7	96.0	89.8	102.5
	November	96.6	99.9	94.3	103.5	87.7	102.4	96.9	89.8	105.5
	December	90.5	106.5	95.9	106.0	95.2	99.9	95.9	89.5	119.2
1983	January	84.4	95.4	83.1	101.4	91.8	93.8	88.0	78.1	79.2
	February	92.2	99.5	89.0	101.3	84.7	95.1	94.5	82.3	89.0
	March	105.6	112.0	94.9	104.9	86.8	103.5	99.0	88.5	106.2
	April	95.2	109.2	90.5	106.9	86.8	103.2	101.4	87.1	110.3
	May	90.5	100.1	89.6	105.0	79.8	101.6	97.5	83.0	105.0
	June	99.1	115.3	93.9	108.4	73.5	104.0	100.5	87.4	104.3
	July	100.0	115.4	95.4	109.3	84.8	103.4	98.7	86.6	102.2
	August	79.6	107.1	89.0	107.9	84.9	98.5	92.4	80.9	99.5
	September	100.9	120.0	94.2	112.5	82.1	104.3	96.7	84.5	112.8
	October	95.3	118.3	97.1	112.2	86.6	109.9	97.4	86.0	104.6
	November	91.5	114.8	97.2	116.4	87.6	108.9	98.0	86.2	99.6
	December	95.1	116.1	98.2	119.3	98.7	106.6	97.6	84.7	115.6

Source: Ministry of International Trade and Industry

Table 5: Japan's Index of Industrial Production by End-Use Classification, 1979-1983

(1980 = 100)

		Final Demand Goods					
					Consumer Goods		
		Total	Capital Goods	Construction Materials	Durable	Nondurable	Producer Goods
1979		94.3	89.0	103.0	88.8	98.6	97.0
1980		100.0	100.0	100.0	100.0	100.0	100.0
1981		103.0	106.0	92.0	107.8	103.3	98.5
1982		104.2	106.4	90.5	110.1	106.5	97.7
1983		106.3	106.7	89.6	117.5	109.7	103.0
1982	January	91.7	96.6	84.3	94.6	88.5	94.3
	February	100.2	107.0	88.1	105.0	96.4	96.1
	March	114.6	129.8	94.6	114.9	108.3	101.6
	April	105.2	106.4	88.7	112.2	110.0	101.0
	May	99.1	96.5	86.5	106.7	105.7	96.7
	June	107.4	106.2	91.1	117.3	113.3	99.5
	July	107.6	106.5	93.1	120.3	110.7	100.0
	August	97.1	99.5	84.4	95.9	102.3	92.6
	September	110.9	119.7	92.2	114.4	109.6	97.4
	October	103.5	100.7	93.6	113.1	107.4	96.9
	November	105.8	103.1	94.5	116.5	109.8	98.2
	December	106.9	104.3	94.9	110.5	115.6	98.5
1983	January	90.4	91.2	81.7	96.7	91.1	92.6
	February	99.1	100.7	87.2	106.9	99.9	94.5
	March	114.7	124.8	93.6	119.2	113.0	101.0
	April	106.4	102.0	88.1	119.2	115.6	101.9
	May	101.2	97.1	85.6	112.3	109.5	99.0
	June	108.0	103.9	91.0	125.5	113.1	103.2
	July	107.6	105.0	91.1	125.4	110.6	105.7
	August	99.7	99.9	85.8	103.4	106.1	100.1
	September	115.3	122.6	91.4	124.7	115.9	106.8
	October	108.8	108.6	93.4	121.6	111.2	108.8
	November	110.5	110.7	93.0	127.3	111.2	110.5
	December	113.9	113.8	92.9	127.8	118.8	112.2

Source: Ministry of International Trade and Industry

Table 6: Japan's Index of Producers' Inventories of Finished Goods, 1979-1983

(1980 = 100)

		Total	Mining	Manufacturing	Iron and Steel	Nonferrous Metals	Fabricated Metal Products	Nonelectric Machinery	Electric Machinery
1979		92.5	111.6	92.5	99.1	105.2	93.2	85.1	83.4
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		102.0	88.4	102.1	103.1	124.5	90.7	106.7	103.1
1982		101.4	87.9	101.5	103.9	118.3	88.4	113.6	110.6
1983		96.2	79.5	96.3	98.5	94.7	89.1	110.5	98.2
1982	January	103.4	78.5	103.5	103.7	124.8	81.2	114.3	113.5
	February	104.2	78.7	104.2	104.1	124.8	85.1	116.7	118.3
	March	100.2	79.1	100.2	102.1	123.9	89.1	113.0	109.6
	April	101.3	84.8	101.4	104.7	119.8	92.9	113.6	109.2
	May	101.9	91.0	102.0	109.4	120.6	90.8	112.7	106.3
	June	101.5	98.6	101.5	107.9	115.6	93.5	115.3	109.0
	July	102.5	96.2	102.5	106.7	112.9	96.8	116.0	110.5
	August	102.2	95.5	102.2	106.3	113.2	94.7	114.2	110.9
	September	100.6	94.4	100.6	102.4	114.7	86.8	110.9	110.5
	October	100.9	92.0	100.9	100.2	118.4	85.2	111.9	111.5
	November	100.5	85.5	100.6	101.9	113.8	82.6	112.2	108.8
	December	97.9	80.7	98.0	97.6	116.9	82.6	112.4	108.5
1983	January	101.4	75.2	101.5	100.3	115.7	85.1	116.9	113.4
	February	100.4	70.4	100.4	99.6	113.3	90.2	116.4	113.7
	March	95.2	69.9	95.3	96.7	97.0	92.4	111.4	104.2
	April	95.3	73.7	95.4	97.9	95.1	94.2	110.1	105.4
	May	96.4	74.3	96.4	99.7	93.5	92.3	108.5	100.2
	June	96.9	78.4	97.0	98.5	92.4	94.1	109.6	100.5
	July	97.5	79.6	97.5	99.1	90.3	95.6	111.5	99.2
	August	94.9	78.7	94.9	99.2	87.1	91.5	107.9	91.7
	September	94.1	84.8	94.1	99.5	85.2	85.8	107.7	89.0
	October	94.4	88.3	94.4	98.4	86.3	82.8	107.6	88.0
	November	95.2	91.7	95.2	98.2	88.1	82.0	108.7	86.5
	December	92.9	88.5	92.9	94.6	91.9	83.0	110.0	86.4

(continued)

Table 6: Japan's Index of Producers' Inventories of Finished Goods, 1979-1983 (continued)

(1980 = 100)

		Transport Equipment	Precision Instruments	Nonmetallic Mineral Products	Chemicals	Petroleum and Coal Products	Pulp, Paper and Paper Products	Textiles	Lumber and Wood Products	Foods
1979		93.9	73.3	93.9	88.9	92.9	87.1	96.3	92.0	102.5
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		109.2	112.6	107.3	99.7	90.7	117.4	98.7	104.6	102.1
1982		114.2	137.9	105.6	98.1	83.0	100.4	102.6	92.1	100.4
1983		103.2	128.9	101.0	92.3	82.1	98.5	103.5	88.5	97.9
1982	January	129.9	122.9	105.3	102.5	86.4	104.2	98.2	93.9	99.7
	February	126.6	129.3	105.8	106.3	80.6	104.0	100.2	96.7	100.1
	March	116.1	130.5	105.0	101.0	72.0	101.6	99.2	99.3	100.5
	April	116.5	131.9	106.7	100.7	77.2	100.3	98.1	99.0	103.0
	May	109.0	137.2	109.0	101.0	82.3	100.5	98.9	96.4	103.4
	June	110.5	148.9	109.0	98.4	77.3	102.0	103.1	94.1	102.7
	July	112.5	150.4	109.5	95.3	77.8	102.2	108.3	93.5	113.0
	August	107.2	146.5	109.0	97.8	85.7	101.2	107.3	89.3	98.2
	September	99.7	137.9	105.5	96.9	90.0	99.9	103.5	91.5	96.6
	October	108.4	137.3	103.4	93.8	92.1	97.1	103.0	85.4	99.6
	November	118.2	139.3	100.7	91.6	89.8	96.8	105.0	81.8	103.8
	December	115.5	142.7	98.8	[illegible]	84.8	95.5	106.0	84.5	83.7
1983	January	118.5	143.3	99.8	98.8	86.6	98.2	107.3	86.6	94.3
	February	107.0	139.0	99.7	101.0	80.8	98.8	107.9	87.0	95.4
	March	94.5	129.0	98.5	95.2	71.1	98.0	105.9	90.6	98.5
	April	96.0	129.2	99.4	94.5	76.3	98.4	102.3	92.1	88.2
	May	99.8	129.0	100.8	95.7	81.6	97.1	101.1	89.8	98.4
	June	104.0	134.4	103.0	91.1	80.4	97.6	103.5	90.9	106.7
	July	103.0	130.2	103.7	89.6	84.5	99.6	107.5	88.4	103.5
	August	97.2	125.5	103.8	89.6	82.8	98.8	105.7	86.1	96.8
	September	97.6	118.2	103.2	88.3	84.7	97.8	101.6	87.1	97.6
	October	99.1	120.0	103.1	87.3	88.4	98.4	99.4	85.8	101.1
	November	110.5	121.2	100.2	87.3	88.6	99.2	100.4	87.2	104.8
	December	111.4	127.9	96.8	88.6	79.8	99.7	99.7	89.9	89.1

Source: Ministry of International Trade and Industry

Table 7: Japan's Index of Consumption of Materials, 1979-1983

(1980 = 100)

		Manufacturing	Iron and Steel	Non-ferrous Metals	Fabricated Metal Products	Machinery	Nonmetallic Mineral Products	Chemicals	Petroleum and Coal Products	Pulp, Paper and Paper Products	Textiles	Lumber and Wood Products	Other Industries
1979		99.9	101.2	99.7	100.8	90.9	102.9	110.4	106.8	102.2	103.1	107.3	101.2
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		94.8	91.6	95.5	90.4	100.0	90.6	91.2	90.7	92.7	95.6	92.3	96.4
1982		91.4	89.7	91.4	93.8	95.1	83.2	89.3	84.7	94.5	94.1	88.1	94.3
1983		92.2	86.1	95.5	91.5	98.2	81.3	92.4	81.6	99.2	92.2	85.2	99.8
1982	January	91.0	92.9	86.8	82.2	91.1	79.4	92.3	100.9	88.4	88.3	80.7	90.4
	February	91.9	89.5	90.6	87.5	96.8	84.5	89.1	89.7	89.0	94.1	85.1	91.5
	March	96.8	95.1	94.4	97.2	104.1	89.2	87.0	92.8	96.0	96.9	91.0	97.3
	April	94.7	93.9	94.1	95.8	100.2	84.5	89.8	88.8	95.3	96.0	90.2	96.8
	May	89.4	94.3	88.9	89.2	92.2	79.7	88.2	80.2	93.8	92.7	86.7	89.3
	June	91.2	92.1	95.0	97.6	99.7	82.3	85.0	69.7	95.1	96.4	90.2	94.6
	July	93.1	86.9	91.8	100.4	99.7	87.0	88.2	81.3	94.7	97.9	90.8	97.1
	August	85.1	84.8	81.8	90.9	83.4	77.8	92.0	82.7	89.1	89.7	82.8	86.2
	September	90.4	85.5	93.2	98.2	95.1	80.4	93.8	75.7	96.3	94.9	88.8	94.3
	October	90.6	87.9	93.6	97.5	93.5	82.7	85.2	82.2	98.9	94.6	90.0	99.1
	November	91.1	85.9	94.4	95.6	94.7	84.5	86.7	82.9	100.4	94.5	90.2	99.1
	December	90.7	85.2	92.1	92.9	90.2	86.4	94.0	89.0	97.4	93.2	90.2	95.3
1983	January	85.9	82.3	87.3	81.3	83.4	73.5	94.5	92.3	91.5	84.4	78.5	89.1
	February	86.7	78.6	89.7	85.2	90.2	79.6	86.3	82.1	92.7	89.6	82.8	92.9
	March	92.5	84.9	96.8	94.3	100.5	83.5	82.7	84.0	100.5	93.3	88.9	98.8
	April	92.2	83.1	93.4	93.1	98.3	78.9	90.2	85.5	99.0	93.8	87.3	100.1
	May	88.5	86.4	92.5	86.0	93.4	78.3	87.3	76.5	97.3	90.8	83.1	95.3
	June	90.7	85.2	96.6	94.4	101.4	82.8	83.9	66.0	99.8	94.9	87.8	101.8
	July	93.9	88.0	96.5	94.9	102.7	84.0	89.5	78.5	99.5	95.5	88.3	103.8
	August	87.4	84.7	90.2	89.1	88.7	78.4	94.4	78.3	94.5	89.5	81.5	93.4
	September	94.0	86.9	98.3	95.3	103.6	81.9	96.4	73.1	100.9	93.5	84.7	103.0
	October	97.3	93.0	103.0	95.6	104.4	83.9	96.3	83.7	105.8	94.4	87.1	107.7
	November	98.2	89.8	101.8	95.6	107.2	84.9	99.5	84.6	105.9	93.9	87.2	107.3
	December	99.1	89.7	100.3	92.6	104.8	85.6	108.3	94.2	103.4	92.8	85.4	104.5

Source: Ministry of International Trade and Industry

Table 8: Japan's Index of Inventories of Materials, 1979-1983

(1980 = 100)

		Manufacturing	Iron and Steel	Non-ferrous Metals	Fabricated Metal Products	Machinery	Nonmetallic Mineral Products	Chemicals	Petroleum and Coal Products	Pulp, Paper and Paper Products	Textiles	Lumber and Wood Products	Other Industries
1979		96.8	118.2	99.0	94.8	86.0	85.7	93.1	91.1	86.2	102.3	97.4	84.8
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		98.5	102.3	112.5	86.5	100.8	99.2	98.6	101.7	101.0	89.7	90.7	83.7
1982		94.9	101.1	127.5	88.2	95.1	86.7	89.7	97.8	88.8	88.9	84.7	75.4
1983		87.1	94.6	122.8	80.2	86.0	74.1	85.4	82.6	85.6	85.7	85.9	71.1
1982	January	96.0	98.2	117.0	84.0	95.7	95.2	95.1	100.1	96.0	87.8	88.6	83.6
	February	95.7	98.4	116.6	85.4	98.7	93.2	93.4	100.6	93.1	85.9	87.6	80.9
	March	95.4	97.6	119.3	85.9	94.0	94.7	88.1	104.8	89.5	83.3	87.8	78.4
	April	96.0	100.9	125.7	85.8	94.8	92.0	94.3	104.3	88.3	80.5	85.6	75.6
	May	94.8	101.6	130.9	88.3	95.5	87.1	89.5	101.0	90.0	77.6	82.5	73.9
	June	94.7	102.2	128.8	90.2	97.1	87.3	87.3	98.3	88.4	85.6	81.1	71.3
	July	95.3	101.4	129.2	90.5	99.1	85.0	87.0	98.9	90.1	90.8	81.5	69.2
	August	94.3	101.8	131.8	90.2	97.2	82.9	88.9	93.5	89.3	93.3	82.0	68.9
	September	94.5	102.6	131.4	91.8	94.2	83.0	92.6	93.2	87.4	93.8	82.4	73.5
	October	94.7	103.5	135.1	89.4	93.4	82.0	86.1	92.9	85.5	98.3	83.6	76.5
	November	93.6	101.4	131.8	89.8	91.3	79.1	88.6	92.0	83.1	96.3	85.5	76.3
	December	94.1	103.7	132.5	86.3	90.4	78.8	86.4	93.8	85.2	93.6	88.3	76.7
1983	January	91.2	103.2	130.0	81.8	86.9	77.6	85.0	87.5	84.0	89.5	89.6	75.1
	February	88.9	101.7	124.9	81.6	87.9	75.6	78.3	84.1	83.0	85.9	90.2	73.3
	March	88.7	100.7	122.1	80.0	84.9	76.1	83.4	87.1	81.3	81.4	90.5	71.7
	April	86.7	100.1	124.1	78.4	84.2	76.0	83.4	81.7	82.7	77.8	86.7	70.4
	May	84.9	99.1	123.8	78.5	80.9	74.3	63.6	79.1	84.7	73.9	84.4	67.7
	June	86.6	95.6	123.7	77.8	83.0	73.1	87.2	83.8	86.5	80.8	85.2	67.3
	July	85.7	93.9	125.2	79.8	84.6	72.6	79.8	80.4	87.8	85.2	84.5	67.3
	August	86.6	92.1	126.1	78.5	87.2	72.4	86.3	80.4	90.1	88.4	84.3	69.9
	September	85.9	88.9	124.8	78.4	87.2	72.3	85.9	80.3	87.8	89.0	83.5	72.9
	October	86.2	85.8	121.4	85.7	87.9	73.1	86.7	80.6	86.7	94.4	82.4	72.8
	November	86.1	85.3	113.7	85.8	89.5	73.2	90.6	81.5	85.7	92.0	83.7	71.6
	December	87.2	88.2	114.0	76.1	87.2	73.2	94.4	85.0	87.1	89.9	85.9	73.3

Source: Ministry of International Trade and Industry

Table 9: Japan's Index of Manufacturing Operating Rates, 1979-1983

(1980 = 100)

		Total	Iron and Steel	Nonferrous Metals	Fabricated Metal Products	Nonelectric Machinery	Electric Machinery
1979		99.9	100.1	102.4	94.3	95.9	105.1
1980		100.0	100.0	100.0	100.0	100.0	100.0
1981		95.4	90.4	93.0	95.8	98.0	96.2
1982		92.6	87.9	89.5	92.8	92.7	95.5
1983		94.1	85.8	92.1	90.3	92.9	101.1
1982	January	88.7	92.3	85.2	86.6	88.0	84.1
	February	92.6	89.0	86.3	91.1	97.1	93.9
	March	99.9	94.9	92.0	107.6	106.6	105.4
	April	95.4	91.3	92.1	94.4	98.1	97.7
	May	90.7	91.4	89.8	90.1	89.3	94.7
	June	94.5	88.1	92.6	91.6	96.0	101.3
	July	95.0	86.3	92.1	91.7	94.0	102.1
	August	85.0	84.0	83.5	87.1	85.4	83.5
	September	94.2	85.3	90.5	104.4	96.6	95.4
	October	90.5	85.2	90.2	91.5	85.7	92.1
	November	92.1	84.4	90.3	87.8	88.5	97.5
	December	92.2	82.8	89.2	89.3	87.0	98.4
1983	January	85.9	81.9	83.7	77.5	81.2	85.4
	February	89.1	76.8	86.8	93.3	87.3	93.6
	March	98.3	81.5	93.6	110.5	102.6	110.7
	April	93.9	84.0	92.2	86.6	92.8	102.9
	May	90.7	86.0	89.4	86.1	86.4	96.7
	June	94.8	84.9	93.5	88.1	92.6	105.4
	July	95.4	88.3	93.1	83.6	93.6	103.3
	August	87.0	87.3	88.1	86.5	88.4	84.7
	September	97.6	87.8	94.6	86.5	100.3	108.7
	October	97.3	92.4	96.2	95.3	93.2	102.8
	November	98.6	89.8	97.1	91.9	97.7	106.0
	December	100.4	89.1	96.5	98.1	98.5	113.1

(continued)

Table 9: Japan's Index of Manufacturing Operating Rates, 1979-1983 (continued)

(1980 = 100)

		Transport Equipment	Precision Instruments	Nonmetallic Mineral Products	Chemicals	Petroleum and Coal Products	Pulp, Paper and Paper Products	Textiles
1979		88.6	90.6	97.7	108.3	107.1	105.3	100.1
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		98.8	98.2	92.5	93.1	91.0	93.4	98.6
1982		92.8	89.4	89.3	90.9	84.8	96.9	98.6
1983		92.6	92.6	88.0	93.6	85.8	102.7	98.5
1982	January	85.0	82.4	86.1	89.8	101.3	89.7	97.0
	February	94.1	88.0	89.3	88.9	90.2	90.1	98.9
	March	107.3	96.7	94.3	88.5	92.9	97.7	99.7
	April	99.8	87.5	85.9	93.1	88.9	97.6	99.0
	May	87.3	82.4	87.3	89.1	80.3	96.6	98.2
	June	98.5	97.0	89.5	90.6	70.0	98.0	99.2
	July	99.4	93.6	92.9	92.4	81.3	97.7	99.1
	August	71.7	83.1	82.4	90.9	82.8	92.7	96.5
	September	98.6	95.0	85.4	95.2	75.6	99.0	98.8
	October	91.3	85.8	89.6	87.9	82.3	101.5	99.1
	November	93.1	88.5	91.4	89.5	83.2	102.4	98.9
	December	87.1	92.5	97.8	95.3	89.0	100.0	98.7
1983	January	81.3	80.2	82.9	90.8	92.6	94.2	96.6
	February	89.9	85.0	87.1	86.1	82.1	95.1	98.5
	March	104.8	92.4	94.4	85.8	84.0	103.7	98.8
	April	94.4	89.9	82.9	92.2	86.1	103.2	98.9
	May	89.4	87.1	84.6	90.5	76.9	101.7	98.2
	June	99.6	97.4	91.1	90.1	65.9	103.9	99.6
	July	98.8	95.8	89.0	93.2	78.8	103.7	99.5
	August	73.7	85.7	84.4	92.9	78.6	98.3	96.8
	September	99.2	96.5	89.7	97.7	73.2	104.1	98.9
	October	92.0	102.1	90.9	97.6	99.4	109.6	99.1
	November	97.0	98.1	88.9	99.6	100.1	108.6	98.8
	December	90.4	100.7	90.4	106.8	111.7	106.3	98.5

Source: Ministry of International Trade and Industry

Table 10: Residential Construction Starts in Japan, 1979-1983

(units)

			Type of Housing		Owner-Occupant Relationship			
		Total	Public	Private	Owner-Built	Developer-Built	Rental Units	Other
1979		1,493,000	129,932	1,363,091	703,865	348,766	413,201	27,191
1980		1,268,600	119,242	1,149,384	601,898	323,402	319,404	23,924
1981		1,151,700	125,263	1,026,436	558,002	267,012	303,808	22,877
1982		1,146,149	102,975	1,043,174	584,182	223,641	315,448	22,878
1983		1,136,797	94,909	1,041,888	478,833	243,265	394,495	20,204
1982	January	66,198	6,237	59,961	31,253	15,083	18,343	1,519
	February	79,426	8,112	71,314	38,964	18,904	20,131	1,427
	March	97,914	9,862	88,052	51,236	21,392	23,593	1,693
	April	106,062	7,806	98,256	60,169	18,266	25,896	1,731
	May	92,995	7,709	85,286	51,492	17,152	23,041	1,310
	June	106,875	9,636	97,239	57,629	19,978	27,499	1,769
	July	104,736	10,208	94,528	55,737	18,930	28,302	1,767
	August	97,689	9,380	88,309	47,136	20,746	26,611	3,196
	September	98,320	10,504	87,816	46,689	19,305	29,469	2,857
	October	101,025	9,786	91,239	49,123	19,286	30,471	2,145
	November	98,420	7,410	91,010	48,696	16,272	31,473	1,979
	December	96,489	6,325	90,164	46,058	18,327	30,619	1,485
1983	January	79,896	5,897	73,999	33,597	19,844	25,112	1,343
	February	83,521	6,399	77,122	37,086	18,431	26,914	1,090
	March	91,072	6,639	84,433	41,022	20,428	28,281	1,341
	April	102,031	10,065	91,966	46,674	19,618	34,115	1,624
	May	82,605	6,399	76,206	39,447	15,430	26,521	1,207
	June	106,721	13,183	93,538	48,814	21,532	34,849	1,526
	July	101,224	8,321	92,903	46,270	20,583	32,738	1,633
	August	96,047	9,754	86,293	37,676	22,668	33,265	2,438
	September	94,691	7,411	87,280	36,627	21,187	34,822	2,055
	October	98,989	7,733	91,256	40,195	20,335	36,321	2,138
	November	96,863	7,189	89,674	35,437	20,468	38,975	1,983
	December	103,137	5,919	97,218	35,988	22,741	42,582	1,826

Source: Ministry of Construction

Table 11: Japan's Labor Force Survey, 1979-1983

(in thousands of persons)

		Working-Age Population*	Total Labor Force	Employed Labor Force	Totally Unemployed Labor Force	Unemployment Rate	Not in Labor Force	Ratio of Job Openings to Applications**
1979		88,240	55,960	54,790	1,170	2.1%	32,000	0.71
1980		89,320	56,500	55,360	1,140	2.0	32,490	0.75
1981		90,170	57,070	55,810	1,260	2.2	32,790	0.68
1982		91,170	57,740	56,380	1,360	2.4	33,090	0.61
1983		92,320	58,890	57,330	1,560	2.6	33,050	0.60
1982	January	90,620	55,760	54,450	1,310	2.3	34,451	0.66
	February	90,730	55,890	54,540	1,350	2.4	34,500	0.65
	March	90,840	46,970	55,500	1,470	2.6	33,500	0.64
	April	90,900	58,060	56,630	1,430	2.5	32,500	0.63
	May	91,030	58,710	57,370	1,340	2.3	31,990	0.59
	June	91,110	58,600	57,230	1,370	2.3	32,240	0.59
	July	91,180	58,210	56,890	1,320	2.3	32,620	0.58
	August	91,330	58,090	56,679	1,300	2.2	32,950	0.58
	September	91,440	58,230	56,890	1,340	2.3	32,910	0.59
	October	91,520	58,490	57,100	1,390	2.4	32,750	0.59
	November	91,610	58,120	56,780	1,340	2.3	33,150	0.60
	December	91,680	57,770	56,420	1,350	2.3	33,490	0.60
1983	January	91,820	57,250	55,630	1,620	2.8	34,230	0.59
	February	91,870	57,250	55,600	1,650	2.9	34,330	0.59
	March	91,970	58,050	56,330	1,720	3.0	33,510	0.59
	April	92,050	59,220	57,520	1,700	2.9	32,450	0.59
	May	92,190	59,870	58,290	1,580	2.6	31,880	0.58
	June	92,270	59,890	58,410	1,480	2.5	32,030	0.58
	July	92,330	59,530	58,090	1,440	2.4	32,400	0.58
	August	92,490	59,400	57,820	1,580	2.7	32,710	0.59
	September	92,580	59,520	57,960	1,570	2.6	32,710	0.60
	October	92,680	59,550	58,060	1,490	2.5	32,740	0.61
	November	92,770	59,030	57,550	1,470	2.5	33,330	0.62
	December	92,820	58,070	56,630	1,430	2.5	34,300	0.63

*People 15 years old and over.
**Excludes applications by new school graduates.

Source: Prime Minister's Office and Ministry of Labor

Table 12: Employment Indexes of Regular Workers in Japan, 1979-1983

(1980 = 100)

		Total	Mining	Construction	Manufacturing	Foods and Tobacco	Textiles	Apparel	Lumber and Wood Products	Pulp and Paper Products	Publishing	Chemicals	Petroleum and Coal Products	Nonmetallic Mineral Products
1979		98.5	102.0	102.3	99.0	97.0	103.3	102.7	104.3	101.4	100.2	100.6	101.7	102.8
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		101.9	98.2	100.5	101.1	101.4	96.1	98.5	93.0	95.1	101.9	99.3	98.7	97.4
1982		103.1	95.7	103.1	101.8	102.5	94.1	99.3	85.8	93.2	102.6	97.4	96.6	95.1
1983		103.4	92.0	102.4	101.7	104.6	91.7	96.8	79.6	93.3	103.5	96.0	92.6	92.2
1982	January	101.3	95.6	99.4	100.4	100.2	93.9	97.6	88.8	92.6	100.9	97.7	97.1	94.8
	February	101.0	95.5	98.5	100.2	99.8	93.5	97.5	88.3	92.3	100.7	96.9	96.7	97.7
	March	101.0	95.1	98.9	100.3	100.0	93.9	98.3	87.9	92.6	100.9	96.5	96.6	94.9
	April	104.3	96.3	101.6	103.2	102.3	96.6	100.9	88.1	93.9	103.9	99.1	98.1	96.2
	May	104.3	96.2	103.1	103.1	102.7	95.8	100.6	87.0	93.6	103.9	98.6	97.7	96.0
	June	104.3	96.2	104.5	102.9	102.7	95.5	100.4	86.4	93.5	103.7	98.4	97.2	95.9
	July	104.1	96.3	105.0	102.7	103.2	94.9	100.5	85.6	93.5	103.5	97.9	96.8	95.5
	August	103.7	96.3	105.3	102.1	102.6	93.9	99.6	84.3	93.2	103.3	97.4	96.5	94.9
	September	103.6	95.6	105.6	101.9	103.2	93.4	99.2	83.9	93.2	102.9	97.1	96.2	94.9
	October	103.5	95.0	105.6	101.7	103.6	92.9	99.2	83.2	93.1	102.6	96.7	95.6	94.7
	November	103.5	95.5	106.4	101.7	104.6	92.8	99.0	83.4	93.3	102.6	96.3	95.3	94.8
	December	103.1	94.2	103.6	101.3	104.7	92.4	98.7	83.0	93.2	102.6	95.8	94.9	93.5
1983	January	102.3	92.8	100.4	100.7	103.2	91.7	97.8	82.0	92.5	101.9	95.5	93.9	92.0
	February	102.1	92.5	100.3	100.4	103.1	91.1	97.3	80.6	92.4	102.0	95.2	93.5	91.8
	March	101.9	92.1	100.4	100.4	103.1	91.7	97.4	80.4	92.5	101.6	95.1	93.2	91.7
	April	104.6	93.4	102.1	103.0	105.6	94.5	98.8	81.0	94.3	105.0	97.7	94.2	93.5
	May	104.4	92.8	102.5	102.7	105.2	93.4	98.3	80.7	93.9	104.5	97.3	93.9	93.4
	June	104.3	92.9	103.2	102.5	104.9	93.0	97.8	80.4	93.7	104.7	97.0	93.3	93.2
	July	104.1	92.5	104.2	102.2	104.6	92.2	97.2	79.7	93.6	104.3	96.4	92.6	92.9
	August	103.8	91.8	103.7	101.9	104.4	91.4	96.5	79.1	93.4	103.9	96.1	92.2	92.3
	September	103.7	91.7	103.6	101.8	104.9	90.9	95.8	78.4	93.3	103.7	95.7	91.9	92.0
	October	103.5	91.2	103.3	101.7	105.2	90.3	95.2	78.1	93.2	103.6	95.4	91.4	91.6
	November	103.4	90.7	103.7	101.7	105.3	90.0	94.7	77.6	93.2	103.7	95.4	91.0	91.3
	December	103.1	89.6	101.1	101.5	105.4	89.7	94.4	77.1	93.0	103.6	95.0	90.4	90.5

(continued)

Table 12: Employment Indexes of Regular Workers in Japan, 1979-1983 (continued)

(1980 = 100)

		Iron and Steel	Non-ferrous Metals	Fabricated Metal Products	Non-electric Machinery	Electric Machinery	Transport Equipment	Precision Instruments	Wholesale and Retail Trade	Finance and Insurance	Real Estate	Transportation and Communications	Utilities	Services
1979		100.7	99.2	98.7	99.1	95.2	97.3	95.5	97.9	100.6	95.5	99.9	97.5	95.3
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		99.1	99.3	100.5	102.3	106.0	103.4	104.8	102.7	100.2	103.9	100.7	101.6	104.1
1982		98.0	98.1	102.0	104.1	110.3	104.4	106.2	104.5	100.6	103.1	100.7	102.2	106.9
1983		95.2	97.2	101.3	103.5	112.8	104.5	108.1	105.8	100.1	102.6	99.2	101.6	108.8
1982	January	97.7	98.1	100.5	102.2	107.6	103.2	104.1	102.0	98.9	102.0	100.7	101.1	104.4
	February	97.5	97.9	100.5	102.1	107.4	102.7	103.8	101.4	98.8	101.8	100.7	100.8	104.2
	March	97.6	98.0	100.7	102.4	107.5	102.9	103.8	101.8	98.5	101.8	100.7	100.8	103.9
	April	98.6	99.6	103.1	105.6	112.6	106.3	107.6	106.8	103.0	105.2	101.2	103.1	107.5
	May	98.7	99.2	102.9	105.6	112.3	105.8	107.4	106.6	102.6	105.2	100.9	103.1	107.9
	June	98.5	99.1	103.0	105.5	112.2	105.5	107.3	106.2	102.2	104.4	100.9	103.0	108.2
	July	98.4	98.8	103.1	105.1	111.6	105.3	107.2	105.9	101.6	104.1	100.9	102.4	107.9
	August	98.1	97.9	102.5	104.7	110.9	104.8	106.9	105.3	101.1	103.4	100.5	102.3	107.8
	September	97.9	97.6	102.3	104.3	110.8	104.6	106.6	104.7	100.5	103.1	100.5	102.4	107.8
	October	97.7	97.4	102.2	104.1	110.5	104.1	106.5	104.4	100.3	102.7	100.4	102.4	108.0
	November	97.6	97.0	102.0	103.9	110.0	104.1	106.4	104.6	100.2	101.9	100.6	102.4	107.9
	December	97.4	96.7	101.6	103.6	109.6	103.6	106.4	104.8	99.6	101.7	100.8	102.3	107.4
1983	January	97.0	96.2	100.7	103.2	109.0	103.2	105.9	104.1	98.9	100.5	100.6	102.0	106.9
	February	96.0	96.2	100.4	103.0	108.7	103.0	105.8	103.6	98.7	100.5	100.4	101.7	106.9
	March	95.8	96.0	100.4	102.9	108.9	103.2	106.0	103.6	98.1	100.6	100.0	101.5	106.5
	April	96.9	98.1	103.4	105.3	113.0	105.6	109.1	107.8	102.2	104.4	99.2	103.1	109.6
	May	96.3	97.9	102.8	104.6	113.2	105.2	108.9	107.5	102.0	104.2	99.3	102.1	109.7
	June	95.5	97.5	102.3	104.5	113.8	105.1	108.6	107.5	101.4	103.7	99.1	102.1	109.8
	July	95.0	97.1	102.1	104.0	113.9	105.2	108.8	107.1	100.9	103.4	98.8	101.8	109.8
	August	94.6	97.0	101.3	103.7	113.9	104.9	108.6	106.4	100.4	103.0	98.6	101.3	109.6
	September	94.2	97.2	101.0	103.3	114.4	104.9	108.8	106.0	99.8	102.8	98.5	101.3	109.5
	October	93.7	97.4	100.6	102.8	114.9	104.7	109.0	105.6	99.7	102.8	98.4	100.8	109.4
	November	93.6	97.7	100.4	102.6	115.1	104.8	109.0	105.4	99.7	102.8	98.5	100.6	109.2
	December	93.2	97.7	100.0	102.5	115.1	104.5	109.0	105.1	99.1	102.3	98.7	100.3	109.0

Source: Ministry of Labor

Table 13: Nominal Wage Indexes of Regular Workers in Japan, 1979-1983

(1980 = 100)

		Total	Mining	Construction	Manufacturing	Foods and Tobacco	Textiles	Apparel	Lumber and Wood Products	Pulp and Paper Products	Publishing	Chemicals	Petroleum and Coal Products	Nonmetallic Mineral Products
1979		94.1	94.2	93.1	93.0	93.9	94.1	94.4	94.9	94.2	91.1	92.8	92.8	92.4
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		105.3	106.1	107.2	105.6	102.8	105.4	105.6	101.5	104.0	106.2	104.7	106.3	106.7
1982		110.0	109.6	111.3	110.7	106.4	109.5	107.7	108.0	111.5	110.9	112.5	110.4	112.4
1983		113.8	114.1	115.6	115.0	111.0	113.7	110.5	112.5	117.3	116.1	117.8	115.5	116.9
1982	January	83.3	89.1	84.7	83.6	85.0	83.9	88.1	88.4	85.6	82.8	81.0	78.7	85.6
	February	80.1	84.0	85.9	81.0	80.1	85.3	86.2	86.8	82.6	79.7	77.2	76.2	84.8
	March	89.4	85.0	89.6	81.8	84.8	83.6	85.7	86.6	82.4	81.8	76.8	75.6	85.0
	April	84.3	86.4	87.7	83.0	82.2	84.6	90.5	87.5	83.5	84.7	78.5	76.9	85.2
	May	83.5	84.7	90.1	86.1	86.6	85.1	89.5	88.6	91.0	83.9	84.8	78.3	90.5
	June	148.8	123.1	139.9	131.4	131.5	148.2	98.6	105.5	141.0	154.8	138.5	130.3	122.0
	July	148.5	116.1	144.8	174.3	144.0	138.2	161.0	146.4	161.9	159.0	196.3	204.0	177.0
	August	97.5	151.8	109.2	101.4	101.6	111.3	115.2	121.3	103.1	91.7	95.0	95.3	110.9
	September	83.8	91.5	89.4	85.0	83.8	87.9	88.1	93.3	87.2	86.0	81.5	80.4	88.4
	October	85.0	87.7	90.8	85.1	82.8	87.2	88.0	92.1	88.1	84.3	83.0	79.6	88.9
	November	87.7	92.6	91.1	88.5	83.8	91.1	93.0	94.4	90.3	95.3	81.5	90.2	92.1
	December	248.0	223.7	232.3	246.9	231.1	227.1	208.9	204.7	241.8	246.6	275.5	259.1	238.5
1983	January	88.2	95.7	93.1	87.2	87.2	88.8	93.1	97.9	87.6	88.1	84.9	86.0	90.4
	February	84.8	87.4	90.3	84.8	83.4	87.7	88.6	90.6	87.7	83.5	82.0	80.7	88.9
	March	94.1	91.9	92.9	86.4	90.4	86.8	89.0	90.7	88.9	87.8	82.6	80.2	89.2
	April	87.5	90.5	91.8	87.3	87.0	89.6	93.1	92.2	91.0	88.8	84.3	80.5	90.1
	May	86.4	88.1	92.5	87.9	88.4	88.4	91.9	91.6	91.5	87.0	84.7	81.8	92.7
	June	155.0	128.6	142.6	139.0	137.2	147.6	103.6	108.2	145.5	169.6	147.9	163.1	128.6
	July	154.2	123.1	156.0	182.7	154.9	147.5	162.8	158.7	174.6	156.7	207.7	183.7	187.7
	August	96.0	151.4	107.0	99.3	99.9	114.7	114.5	120.5	102.0	98.5	91.7	96.5	102.3
	September	86.7	94.9	93.0	88.7	87.9	90.7	91.9	95.6	93.0	88.6	85.4	83.2	92.0
	October	87.8	90.6	94.1	88.8	86.5	90.7	91.8	94.7	92.5	87.5	86.6	83.2	93.7
	November	90.0	91.2	95.6	93.8	88.9	96.6	94.0	97.2	92.3	99.6	86.2	104.0	101.1
	December	255.4	235.8	237.9	253.8	239.9	235.3	211.3	211.9	261.3	257.1	289.5	263.6	246.5

(continued)

Table 13: Nominal Wage Indexes of Regular Workers in Japan, 1979-1983 (continued)

(1980 = 100)

		Iron and Steel	Non-ferrous Metals	Fabricated Metal Products	Non-electric Machinery	Electric Machinery	Transport Equipment	Precision Instruments	Wholesale and Retail Trade	Finance and Insurance	Real Estate	Transportation and Communications	Utilities	Services
1979		91.7	94.3	95.0	91.4	93.8	92.0	94.3	95.4	92.7	95.5	94.8	94.3	95.3
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		106.4	104.5	107.1	106.9	105.0	106.1	105.2	103.0	107.3	101.1	106.5	108.3	104.2
1982		111.6	109.0	110.6	111.8	111.2	110.5	108.9	106.4	112.9	107.9	111.6	113.1	108.5
1983		113.7	114.2	114.5	113.4	117.0	114.4	115.2	109.9	118.3	111.8	116.4	116.2	110.9
1982	January	85.5	81.7	87.9	82.7	80.3	85.3	79.5	85.0	81.5	79.4	86.1	86.5	80.3
	February	79.7	81.2	83.9	81.4	79.7	80.0	77.2	77.4	72.7	76.9	82.1	82.4	79.0
	March	80.1	80.9	83.0	83.7	80.2	80.6	78.0	80.3	92.1	90.6	89.5	96.8	105.3
	April	82.8	81.1	85.1	84.9	81.2	81.5	80.9	82.3	78.1	80.1	96.1	84.2	81.7
	May	85.0	84.9	86.4	86.5	85.9	85.3	82.5	82.6	78.2	81.0	83.8	84.5	79.5
	June	99.0	154.8	112.0	125.8	165.2	105.4	131.5	122.6	203.2	160.8	154.7	231.7	166.7
	July	221.5	146.4	180.2	180.0	147.7	208.6	176.2	161.3	131.7	136.8	137.0	90.1	119.4
	August	103.3	102.4	104.1	108.2	98.1	95.0	96.5	96.5	91.8	90.9	98.9	88.8	89.4
	September	83.3	83.7	87.1	85.6	84.6	83.3	81.7	82.0	78.4	80.5	85.2	85.3	81.5
	October	82.9	84.2	87.8	84.8	84.9	83.8	82.0	83.5	80.0	82.3	90.5	86.7	81.9
	November	89.7	86.6	91.6	89.6	86.5	88.8	83.0	89.6	82.3	82.8	87.9	83.6	85.7
	December	246.3	240.3	238.2	248.3	260.1	247.8	257.4	233.8	284.5	252.3	246.8	256.0	251.0
1983	January	88.3	86.2	87.8	85.7	86.8	83.8	82.8	89.7	90.9	84.0	93.5	89.4	83.6
	February	81.7	85.8	87.8	83.4	85.4	82.6	82.8	81.3	77.1	80.8	94.6	84.3	82.1
	March	82.6	86.3	89.5	84.0	86.1	84.7	86.5	84.9	93.0	92.0	102.8	97.2	105.7
	April	84.3	86.9	88.5	86.9	87.4	85.2	86.0	86.4	83.7	85.6	93.3	86.6	84.9
	May	85.0	87.6	87.7	87.1	88.8	86.6	85.8	87.3	82.7	84.1	87.7	85.3	82.2
	June	101.8	162.6	115.9	132.5	181.3	108.0	136.9	129.0	213.2	171.2	163.2	238.8	169.8
	July	226.0	159.4	187.7	181.0	158.8	222.2	193.1	164.8	137.6	141.3	139.7	93.4	123.2
	August	98.8	95.9	102.4	102.2	93.8	94.9	98.6	94.5	91.4	89.6	98.6	89.3	88.7
	September	85.2	88.6	91.9	87.1	89.3	87.4	87.0	85.4	82.0	83.4	88.6	86.9	82.7
	October	85.8	88.7	91.1	87.3	89.2	88.3	87.2	85.8	83.6	87.0	93.9	89.2	83.3
	November	95.5	90.0	94.4	94.7	92.2	96.7	88.1	87.2	86.8	85.7	91.1	87.8	84.6
	December	249.0	252.5	249.1	249.3	265.2	251.8	267.6	242.8	297.5	257.1	249.5	266.6	259.6

Source: Ministry of Labor

Table 14: Indexes of Labor Productivity in Japan, 1979-1983

(1980 = 100)

		Total	Mining	Manufacturing	Foods	Textiles	Lumber and Wood Products	Pulp and Paper Products	Nonmetallic Mineral Products	Rubber Products
1979		94.1	98.5	94.1	99.4	98.3	98.6	94.5	96.3	90.8
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		102.4	98.1	102.4	102.4	101.8	92.8	100.2	98.4	99.2
1982		103.4	100.2	103.4	100.4	104.5	93.3	104.1	100.4	97.1
1983		108.1	104.8	108.1	99.0	107.4	96.6	111.9	105.8	107.5
1982	January	103.1	99.5	103.1	84.4	107.1	95.0	101.4	99.7	96.2
	February	102.7	103.3	102.7	88.6	103.4	86.4	97.5	99.6	97.5
	March	111.0	105.8	111.0	108.9	108.5	93.6	108.4	103.8	103.1
	April	101.0	95.8	101.0	101.4	106.1	91.9	102.9	96.5	97.3
	May	101.9	100.0	101.9	104.1	108.6	95.3	105.4	99.0	91.3
	June	102.2	96.6	102.2	105.9	103.6	90.6	101.7	98.3	98.2
	July	101.9	93.2	102.0	100.7	102.5	93.3	103.3	99.6	97.5
	August	101.3	94.2	101.3	94.9	102.8	93.0	101.2	97.0	89.6
	September	106.4	101.1	106.4	101.9	103.2	94.5	105.0	99.2	101.4
	October	101.9	102.5	101.9	100.1	103.1	97.6	108.4	102.0	100.2
	November	102.3	102.7	102.3	100.4	102.3	93.9	107.3	103.1	97.2
	December	104.7	108.0	104.7	113.8	102.9	94.3	106.4	106.9	95.9
1983	January	101.4	105.0	101.4	83.3	106.3	99.0	107.1	100.1	95.1
	February	103.0	106.4	103.0	88.2	105.5	92.9	103.6	103.7	102.1
	March	111.6	110.9	111.6	105.8	103.9	101.5	114.6	108.6	108.6
	April	103.1	103.3	103.1	101.8	107.5	92.2	108.6	100.2	102.0
	May	106.0	100.3	106.0	104.3	109.8	94.4	111.3	103.2	102.9
	June	104.9	104.7	104.9	96.4	107.0	90.8	109.7	103.9	109.0
	July	106.5	97.2	106.6	96.3	106.5	93.9	110.0	106.6	110.8
	August	107.8	100.3	107.8	97.7	107.2	93.9	109.3	104.2	102.8
	September	113.5	105.4	113.6	108.3	107.6	94.2	113.6	107.3	114.6
	October	111.7	105.8	111.7	101.8	109.1	103.6	120.5	110.7	116.0
	November	112.3	107.3	112.3	94.8	109.3	102.0	117.9	110.2	113.6
	December	115.1	110.9	115.1	109.6	108.8	100.8	116.5	111.2	112.2

(continued)

Table 14: Indexes of Labor Productivity in Japan, 1979-1983 (continued)

(1980 = 100)

		Chemicals	Petroleum and Coal Products	Iron and Steel	Nonferrous Metals	Fabricated Metal Products	Nonelectric Machinery	Electric Machinery	Transport Equipment	Precision Instruments
1979		97.5	105.1	96.3	98.9	100.4	91.1	88.0	84.0	80.9
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		101.8	96.4	96.8	98.2	99.3	101.7	110.3	107.5	109.5
1982		106.8	91.3	96.5	97.7	100.3	100.6	118.4	100.4	104.9
1983		115.3	92.8	97.5	103.2	98.3	101.9	136.2	96.8	114.4
1982	January	112.6	93.7	102.4	99.7	98.3	102.4	118.7	107.0	105.2
	February	102.9	99.4	99.4	97.2	95.1	103.5	114.8	109.8	107.0
	March	104.8	100.6	104.3	102.9	105.8	117.8	130.0	113.1	115.3
	April	101.6	91.7	98.0	95.4	100.5	101.2	106.1	100.1	103.5
	May	105.5	81.1	102.4	98.1	100.1	99.0	110.3	96.8	97.9
	June	104.7	78.8	96.6	95.4	103.7	99.0	111.4	103.2	106.2
	July	104.2	88.5	93.2	96.5	103.7	96.7	117.7	100.0	104.2
	August	112.0	86.9	93.5	95.9	98.7	97.3	120.3	90.3	105.5
	September	112.5	88.4	92.2	97.7	103.4	107.6	128.8	103.2	107.3
	October	105.7	91.7	92.4	98.1	98.9	95.0	117.2	95.2	100.8
	November	105.6	93.2	92.2	97.4	100.0	94.8	121.6	94.8	97.7
	December	109.5	101.8	91.6	97.7	95.0	95.8	127.4	91.8	108.0
1983	January	113.7	99.0	95.4	100.9	90.1	96.3	117.0	93.7	106.5
	February	109.3	94.5	91.2	98.5	93.1	98.2	126.5	97.8	108.4
	March	112.3	96.7	94.9	107.0	100.9	111.8	143.3	105.5	115.5
	April	108.1	92.3	92.8	97.5	96.4	97.0	122.7	91.6	108.3
	May	115.0	89.1	97.9	102.7	97.8	99.7	127.2	93.5	107.5
	June	109.8	78.4	94.5	98.7	100.8	97.5	129.6	97.7	112.8
	July	112.2	90.1	96.8	101.4	96.8	99.3	133.2	98.7	114.5
	August	117.2	91.9	99.4	104.5	98.9	103.3	139.0	88.4	117.3
	September	119.2	90.1	99.5	105.0	99.6	108.2	153.0	102.4	123.7
	October	119.6	93.3	103.1	108.8	103.1	103.2	142.2	94.9	121.6
	November	121.9	97.4	102.1	107.2	100.4	102.7	147.3	99.1	117.3
	December	125.7	100.3	102.3	106.0	101.8	105.2	153.1	98.3	119.2

Source: Japan Productivity Center

Table 15: Japan's Wholesale Price Index by Industry, 1979-1983

(1980 = 100)

		Total		Processed Foods	Textile Products	Lumber and Wood Products	Pulp, Paper and Related Products	Chemicals	Petroleum and Products	Ceramics	Iron and Steel
		Index	Change Over Year-Earlier Period								
1979		84.9	7.3%	91.0	94.6	89.0	76.8	83.0	60.7	86.2	91.5
1980		100.0	17.8	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		101.4	1.4	104.4	100.9	90.1	97.0	97.4	109.5	103.6	101.2
1982		103.2	1.8	104.9	102.5	91.3	95.6	96.9	117.7	104.9	102.3
1983		100.9	-2.2	107.0	100.2	88.0	92.9	94.6	112.4	104.3	98.1
1982	January	101.9	1.9	105.0	102.7	92.7	96.4	97.4	114.0	103.9	101.6
	February	102.6	2.7	105.2	103.0	92.0	96.6	97.7	114.2	104.3	102.6
	March	102.9	2.9	105.4	102.5	91.6	96.9	97.8	114.3	104.6	102.9
	April	103.1	2.6	105.2	102.5	91.2	97.1	97.5	115.7	104.7	103.1
	May	102.4	1.1	104.8	102.3	90.2	96.7	96.7	115.8	104.7	102.2
	June	102.9	1.4	104.6	102.6	89.4	96.3	96.6	116.2	105.1	102.7
	July	103.5	1.4	104.6	102.6	90.4	95.4	96.2	116.8	105.3	103.0
	August	103.8	1.2	104.7	102.6	91.1	94.9	96.2	119.7	105.3	102.9
	September	104.2	1.7	104.8	102.7	91.6	94.7	96.3	120.6	105.3	102.7
	October	104.4	2.0	104.8	102.7	91.4	94.4	96.7	121.7	105.6	102.5
	November	104.1	2.0	104.9	102.2	91.7	94.3	96.8	121.7	105.4	101.8
	December	102.7	0.9	104.5	101.1	91.8	93.9	96.3	121.1	104.7	100.1
1983	January	101.8	-0.1	104.2	100.2	91.0	93.2	95.2	120.6	104.5	99.0
	February	101.9	-0.7	104.3	99.8	90.1	93.1	95.3	120.7	104.5	98.3
	March	101.5	-1.4	104.3	99.2	89.2	92.5	95.2	120.8	104.5	97.9
	April	100.8	-2.2	104.8	99.4	88.5	92.4	95.0	113.7	104.4	97.9
	May	100.5	-1.9	107.1	99.7	88.0	92.1	94.5	113.4	104.3	97.8
	June	100.8	-2.0	107.6	100.2	87.4	92.5	94.3	113.5	104.4	98.3
	July	101.0	-2.4	107.7	100.2	86.9	92.6	94.1	112.9	104.3	98.2
	August	100.8	-2.9	108.1	100.4	87.3	92.6	94.3	106.9	104.3	98.0
	September	100.9	-3.2	108.4	100.8	87.3	92.6	94.4	106.8	104.2	98.2
	October	100.2	-4.0	108.9	100.4	87.1	92.8	94.2	106.7	103.9	98.0
	November	100.3	-3.7	109.1	100.6	87.1	93.7	94.4	106.6	103.9	98.0
	December	100.4	-2.2	109.3	101.2	86.6	94.3	94.7	106.4	104.0	98.1

(continued)

Table 15: Japan's Wholesale Price Index by Industry, 1979-1983 (continued)

(1980 = 100)

		Nonferrous Metals	Metal Products	Nonelectric Machinery and Precision Instruments	Electric Machinery	Transport Equipment	Miscellaneous Products	Agricultural, Forestry and Fishery Products	Mining Products	Electric Power, Gas and Water
1979		77.5	91.0	96.0	97.3	97.6	87.8	94.6	63.9	68.3
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		86.8	101.5	101.1	99.8	102.6	103.5	98.3	108.8	110.3
1982		83.7	100.0	102.0	100.3	105.5	104.0	98.7	119.7	111.9
1983		85.9	100.4	100.4	97.2	105.4	104.8	98.0	106.1	112.0
1982	January	83.7	100.0	101.3	99.7	103.9	102.2	97.1	111.6	110.1
	February	84.5	100.0	101.8	100.3	104.7	102.8	97.7	115.0	110.3
	March	83.7	100.0	102.1	100.6	104.9	103.0	98.4	116.8	110.3
	April	83.6	100.2	102.3	100.5	105.1	103.4	99.4	118.1	110.3
	May	82.5	100.1	102.0	99.5	104.2	103.2	98.6	115.7	110.3
	June	80.7	99.9	102.2	100.1	106.1	104.3	99.3	118.8	110.3
	July	82.1	99.8	102.1	100.7	106.1	104.9	99.0	122.0	116.5
	August	83.2	99.8	102.2	100.9	105.9	104.9	98.5	123.2	116.5
	September	84.5	99.8	102.3	101.0	106.4	105.2	99.8	124.4	116.5
	October	85.8	100.1	102.4	101.0	107.1	105.0	99.5	127.1	110.3
	November	86.0	100.1	102.3	100.1	106.5	105.0	99.0	125.8	110.4
	December	84.1	99.9	101.5	98.9	104.6	104.6	97.6	118.4	110.4
1983	January	83.5	99.6	101.1	98.0	104.3	103.9	95.7	114.4	110.4
	February	84.7	99.3	101.0	97.8	104.9	104.1	97.0	114.7	110.4
	March	83.5	99.2	101.0	97.6	105.2	104.1	97.9	110.3	110.4
	April	84.5	99.4	100.7	97.5	105.5	104.3	97.0	108.2	110.4
	May	86.1	99.5	100.4	97.3	105.1	104.2	96.6	103.5	110.4
	June	87.2	99.6	100.4	97.3	105.6	104.1	97.6	104.2	110.4
	July	87.6	100.3	100.4	97.2	105.5	104.8	98.0	103.9	116.6
	August	88.4	100.6	100.4	97.3	105.9	105.1	99.8	104.9	116.6
	September	88.7	101.0	100.2	97.2	105.8	105.3	100.2	104.4	116.6
	October	86.2	101.3	99.9	96.7	105.3	105.6	98.3	101.6	110.4
	November	85.0	102.3	99.9	96.4	105.8	105.9	98.5	101.8	110.4
	December	85.7	102.6	99.9	96.2	105.5	106.0	98.9	101.5	110.7

Source: Bank of Japan

Table 16: Japan's Wholesale Price Index for Domestic Products, 1979-1983

(1980 = 100)

				Intermediate Goods						Consumer Goods		
		Total	Raw Materials	Total	Semifinished Goods	Construction Materials	Fuels and Energy	Other Materials	Capital Goods	Total	Durables	Nondurables
1979		84.3	72.5	81.2	84.4	89.5	60.0	81.9	95.6	92.8	98.3	91.5
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		101.4	103.2	100.3	98.2	96.3	111.4	101.5	102.3	102.6	99.7	103.5
1982		103.0	110.5	100.7	97.3	96.1	117.6	101.2	103.8	103.7	99.2	105.1
1983		101.2	101.7	99.4	96.3	95.4	114.0	100.2	103.8	103.8	97.8	105.6
1982	January	101.9	104.4	100.5	97.7	96.3	114.3	101.6	103.2	103.1	99.4	104.1
	February	102.4	107.3	100.6	97.9	96.2	114.4	101.6	103.4	103.2	99.4	104.3
	March	102.5	108.8	100.5	97.8	96.0	114.6	101.6	103.6	103.3	99.4	104.5
	April	102.8	109.9	100.6	97.6	96.1	115.5	101.6	103.6	103.5	99.3	104.8
	May	102.3	107.8	100.3	97.1	95.8	115.6	101.5	103.6	103.5	99.3	104.8
	June	102.5	110.0	100.1	96.8	95.5	115.9	101.4	103.6	103.6	99.3	104.9
	July	103.1	112.0	100.6	96.8	95.7	118.9	101.1	103.8	103.7	99.4	105.0
	August	103.5	112.6	101.1	96.9	96.0	121.3	101.0	103.9	104.0	99.3	105.5
	September	103.9	113.5	101.4	97.1	96.2	122.1	100.8	104.1	104.3	99.1	105.9
	October	104.0	115.5	101.1	97.4	96.3	119.6	100.8	104.2	104.3	99.1	105.9
	November	103.9	114.6	101.2	97.4	96.5	119.6	100.8	104.4	104.2	99.0	105.8
	December	102.9	109.0	100.8	97.0	96.4	119.2	100.8	104.1	104.1	98.6	105.7
1983	January	102.2	105.9	100.4	96.4	96.1	119.1	100.7	104.0	103.5	98.5	105.0
	February	102.3	106.5	100.4	96.5	95.7	119.0	100.6	103.9	103.6	98.4	105.1
	March	101.8	104.0	100.1	96.2	95.2	119.0	100.3	103.9	103.7	98.2	105.3
	April	101.0	102.8	99.2	95.9	95.2	114.8	100.2	103.9	103.0	98.1	104.4
	May	100.8	99.6	99.2	96.0	95.0	114.6	100.2	103.8	103.6	97.8	105.4
	June	100.9	100.2	99.3	96.1	94.9	114.6	100.1	103.7	103.9	97.7	105.7
	July	101.2	100.3	99.7	96.0	95.0	117.3	100.1	103.8	103.9	97.7	105.7
	August	101.0	101.7	98.9	96.3	95.2	111.7	100.0	103.8	103.9	97.5	105.8
	September	101.1	101.7	99.1	96.5	95.4	111.7	99.9	103.7	104.0	97.5	106.0
	October	100.5	99.2	98.6	96.4	95.5	108.9	100.0	103.7	104.0	97.5	106.0
	November	100.5	99.4	98.7	96.4	95.9	108.8	100.1	103.5	104.1	97.5	106.0
	December	100.7	99.4	98.8	96.7	95.8	108.7	100.5	103.7	104.3	97.4	106.3

Source: Bank of Japan

Table 17: Japan's Wholesale Price Index for Exported Products, 1979-1983

(1980 = 100)

		Total	Semifinished Goods	Construction Materials	Capital Goods	Consumer Goods		
						Total	Durables	Nondurables
1979		92.5	89.3	91.1	93.8	95.2	96.7	88.4
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		101.2	97.9	116.0	102.0	100.8	100.6	102.3
1982		105.1	101.8	119.3	107.7	103.6	102.8	108.7
1983		98.8	95.9	94.2	105.5	97.8	97.1	102.5
1982	January	102.5	98.3	125.4	103.6	101.3	101.0	103.6
	February	104.5	100.5	128.5	104.9	103.3	102.8	106.3
	March	105.4	101.5	127.6	106.1	104.2	103.8	106.7
	April	105.9	102.2	127.1	106.9	104.4	103.9	107.8
	May	103.5	100.0	122.4	105.5	101.4	100.7	105.6
	June	106.2	102.5	124.0	108.2	104.8	104.1	109.1
	July	106.8	103.5	126.0	109.0	104.4	103.5	110.0
	August	106.2	103.5	117.3	109.1	104.3	103.3	110.9
	September	106.5	103.5	113.5	110.0	105.4	104.4	111.7
	October	107.2	104.7	110.2	111.0	106.4	105.2	114.1
	November	105.4	102.8	107.2	110.6	103.8	102.5	111.9
	December	101.2	98.2	102.0	107.4	99.3	98.3	106.2
1983	January	98.9	95.6	98.1	105.7	97.2	96.3	103.2
	February	98.8	95.7	96.8	105.6	97.5	96.5	103.7
	March	98.9	95.6	95.7	105.5	97.8	96.9	103.7
	April	98.9	95.6	95.4	105.6	98.1	97.3	103.3
	May	98.4	94.9	94.9	105.0	97.8	97.1	102.2
	June	99.3	96.1	95.8	105.8	98.6	97.9	103.5
	July	99.3	96.3	95.6	105.9	98.3	97.6	102.9
	August	99.8	97.4	93.3	106.1	98.9	98.1	103.7
	September	99.5	97.3	92.0	106.1	98.5	97.7	103.4
	October	98.0	95.5	90.8	104.7	97.0	96.4	100.4
	November	98.2	95.7	90.5	105.0	97.4	96.9	100.3
	December	98.1	95.6	91.5	104.8	97.0	96.6	99.9

Source: Bank of Japan

Table 18: Japan's Consumer Price Index, 1979-1983

(1980 = 100)

		Total										
		Index	Change Over Year-Earlier Period	Food	Housing	Utilities	Clothing	Medical Care	Transport-tation	Education	Recreation	Miscella-neous
1979		92.6	3.6%	94.3	92.4	74.9	94.8	98.3	94.0	91.5	93.2	89.2
1980		100.0	8.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		104.9	4.9	105.3	104.0	107.7	104.0	102.8	103.4	107.5	105.0	104.5
1982		107.7	2.7	107.2	107.1	111.5	107.0	105.8	108.7	114.1	107.0	106.4
1983		109.7	1.9	109.4	110.3	111.2	109.5	107.2	107.8	119.7	109.6	110.5
1982	January	106.5	3.3	106.7	105.3	110.2	104.6	104.7	106.8	109.3	105.6	105.7
	February	106.2	3.1	106.9	105.6	110.3	100.5	105.1	107.1	109.3	105.7	105.8
	March	106.4	2.8	107.1	105.8	110.4	101.7	105.1	107.1	109.3	105.7	105.9
	April	107.2	2.8	107.6	106.5	110.9	102.7	105.8	107.4	109.3	106.7	106.2
	May	107.6	2.3	106.6	106.9	111.1	109.6	105.8	108.5	115.4	106.8	106.3
	June	107.6	2.2	106.1	107.3	111.3	110.7	105.9	108.6	115.6	106.9	106.3
	July	106.8	1.7	104.8	107.5	111.3	106.7	105.9	108.8	115.7	106.6	106.4
	August	107.6	3.1	108.0	107.6	112.1	98.8	105.9	109.8	115.7	108.3	106.4
	September	109.5	3.2	109.8	107.8	112.6	109.8	106.1	109.9	115.7	108.4	106.7
	October	109.8	3.1	109.7	107.9	112.7	113.3	106.3	110.1	115.7	108.1	106.7
	November	108.6	2.3	106.7	108.1	112.6	113.4	106.5	110.1	115.7	107.5	106.8
	December	108.4	1.8	106.2	108.6	112.6	112.5	106.6	110.2	115.7	108.0	107.0
1983	January	108.6	2.0	107.8	108.8	112.4	107.8	106.2	110.1	115.7	108.3	107.1
	February	108.2	1.9	108.2	109.0	112.0	103.2	106.4	109.6	115.7	108.3	107.2
	March	108.9	2.3	109.6	109.1	111.6	104.1	106.5	109.1	115.8	108.8	107.4
	April	109.3	2.0	109.6	109.6	111.2	105.3	106.7	108.1	120.8	110.0	107.9
	May	110.5	2.7	110.7	110.1	111.2	112.3	106.8	107.7	121.0	109.6	111.6
	June	109.7	2.0	108.8	110.4	111.1	112.2	107.0	107.3	121.0	109.0	111.9
	July	109.2	2.2	108.3	110.6	111.0	109.6	107.1	106.9	121.0	109.3	112.0
	August	108.9	1.2	109.8	110.8	110.9	100.6	107.2	106.1	121.0	110.3	111.9
	September	110.3	0.7	109.9	111.0	110.9	112.5	107.5	107.0	121.0	110.1	112.0
	October	111.3	1.4	111.5	111.4	110.9	115.1	107.7	107.4	121.0	110.4	112.1
	November	110.6	1.8	109.4	111.5	110.7	116.3	108.3	107.3	121.0	110.3	112.1
	December	110.3	1.8	108.9	111.7	110.2	115.0	108.7	107.2	121.1	110.7	112.3

Source: Bank of Japan

Table 19: Japan's Export and Import Yen-Based Price Indexes, 1979-1983

(1980 = 100)

		Exports		Imports	
		Index	Change Over Year-Earlier Period	Index	Change Over Year-Earlier Period
1979		92.1	10.8%	69.1	28.7%
1980		100.0	8.6	100.0	44.7
1981		101.2	1.2	101.6	1.6
1982		105.1	3.9	109.6	7.9
1983		98.8	-6.0	101.0	-7.8
1982	January	102.5	6.7	102.2	7.8
	February	104.5	8.0	105.5	9.4
	March	105.4	7.9	107.1	9.3
	April	105.9	6.5	108.4	8.5
	May	103.5	2.5	106.0	3.6
	June	106.2	3.9	108.9	5.2
	July	106.8	2.7	111.3	5.8
	August	106.2	1.3	112.4	6.2
	September	106.5	2.4	113.7	8.8
	October	107.2	2.9	116.0	10.7
	November	105.4	2.8	114.9	11.4
	December	101.2	-0.1	108.6	7.6
1983	January	98.9	-3.5	104.9	2.6
	February	98.8	-5.5	105.2	-0.3
	March	98.9	-6.2	102.8	-4.0
	April	98.9	-6.6	101.8	-6.1
	May	98.4	-4.9	98.9	-6.7
	June	99.3	-6.5	99.9	-8.3
	July	99.3	-7.0	100.1	-10.1
	August	99.8	-6.0	101.7	-9.5
	September	99.5	-6.6	101.6	-10.6
	October	98.0	-8.6	98.6	-15.0
	November	98.2	-6.8	98.6	-14.2
	December	98.1	-3.1	98.3	-9.2

Source: Bank of Japan

Table 20: Japan's Global Balance of Payments, 1979-1983

(in millions of dollars, IMF value basis, seasonally unadjusted)

		Exports	Imports	Trade Balance	Services	Transfers	Current Account Balance	Long-Term Capital	Basic Balance	Short-Term Capital	Errors and Omissions	Overall Balance	International Reserves*
1979		$101,232	$ 99,387	$ 1,845	$-9,472	$-1,127	$-8,754	$-12,976	$-21,730	$2,735	$2,333	$-16,662	$20,327
1980		126,736	124,611	2,125	-11,343	-1,528	-10,746	2,324	-8,422	3,141	-3,115	-8,396	25,232
1981		149,522	129,555	19,967	-13,573	-1,624	4,770	-9,672	-4,902	2,265	493	-2,144	28,403
1982		137,663	119,584	18,079	-9,848	-1,381	6,850	-14,969	-8,119	-1,579	4,727	-4,971	23,262
1983		145,468	114,014	31,454	-9,106	-1,549	20,799	-17,700	3,099	23	2,055	5,177	24,496
1982	January	10,246	11,105	-859	-898	-135	-1,892	-1,605	-3,497	-497	1,326	-2,668	28,245
	February	11,543	10,267	1,276	-1,186	-87	3	-1,493	-1,490	23	265	-1,202	28,122
	March	13,205	11,183	2,022	-799	-246	977	-2,707	-1,730	1,339	970	579	27,231
	April	12,138	10,707	1,431	-754	-115	562	-1,976	-1,414	-2,250	481	-3,183	26,807
	May	11,408	10,045	1,363	-1,154	-62	147	-571	-424	495	1,200	1,271	26,543
	June	11,670	9,152	2,518	-587	-58	1,873	-2,022	-149	-1,096	-223	-1,468	25,487
	July	11,922	9,552	2,370	-762	-112	1,496	-1,956	-460	369	-408	-499	25,669
	August	10,379	9,429	950	-924	-66	-40	-2,281	-2,321	1,096	828	-397	24,416
	September	11,663	9,223	2,440	-852	-120	1,468	-415	1,053	-1,539	1,309	823	24,009
	October	11,062	9,123	1,939	-396	-110	1,433	-292	1,141	-938	-276	-73	22,840
	November	9,982	9,865	117	-982	-156	-1,021	646	-375	2,088	-103	1,610	22,976
	December	12,445	9,933	2,512	-554	-114	1,844	-297	1,547	-669	-642	236	23,262
1983	January	9,323	9,957	-634	-774	-124	-1,532	-563	-2,095	-396	273	-2,218	23,593
	February	11,028	8,834	2,194	-1,186	-112	896	-117	779	-222	756	1,313	23,754
	March	12,973	10,032	2,941	-610	-322	2,009	-2,032	-23	-94	714	597	24,015
	April	12,055	9,239	2,816	-451	-95	2,270	-1,932	338	-760	-633	-1,055	24,272
	May	11,477	8,729	2,748	-948	-133	1,667	-5	1,662	-26	412	2,048	24,484
	June	12,144	9,329	2,815	-413	-67	2,335	-1,556	779	-240	845	1,384	24,782
	July	12,500	8,668	3,832	-796	-134	2,902	-1,736	1,166	17	-309	874	24,939
	August	11,493	9,013	2,480	-1,052	-76	1,352	-1,852	-500	21	452	-27	24,398
	September	12,625	9,240	3,385	-655	-69	2,661	-2,332	329	35	-46	318	24,641
	October	12,766	9,673	3,093	-711	-150	2,232	-2,346	-114	310	-368	-172	24,665
	November	12,180	10,138	2,042	-1,071	-146	825	-1,389	-564	1,564	78	1,078	24,697
	December	14,904	11,162	3,742	-439	-121	3,182	-1,840	1,342	-186	-119	1,037	24,496

*Gold, foreign exchange, special drawing rights (SDRs) and International Monetary Fund (IMF) reserve position. Annual figures are for December.

Source: Bank of Japan and Ministry of Finance

Table 21: Japan's Exports and Imports in Dollar Terms, 1979-1983

(in millions of dollars, customs clearance basis, seasonally unadjusted)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1979		$103,032	5.6%	$110,672	39.5%	$ -7,641
1980		129,807	26.0	140,528	27.0	-10,721
1981		152,030	17.1	143,290	2.0	8,741
1982		138,831	-8.7	131,931	-7.9	6,900
1983		146,928	5.8	126,393	-4.2	20,534
1982	January	10,303	8.9	12,160	1.8	-1,857
	February	11,670	-3.6	11,346	-3.9	324
	March	13,471	-3.6	12,625	-2.4	846
	April	12,317	-4.0	11,832	-4.6	485
	May	11,590	-8.3	11,140	-11.9	450
	June	11,729	-8.0	10,071	-10.8	1,659
	July	11,953	-12.1	10,677	-10.7	1,276
	August	10,422	-11.6	10,457	-5.3	-35
	September	11,630	-11.6	10,044	-7.4	1,586
	October	11,104	-17.8	10,127	-11.0	977
	November	10,059	-14.0	10,473	-11.6	-413
	December	12,583	-13.3	10,980	-15.8	1,603
1983	January	9,222	-10.5	10,924	-10.2	-1,702
	February	11,032	-5.5	9,630	-15.1	1,402
	March	13,000	-3.5	10,959	-13.2	2,041
	April	12,206	-0.9	10,176	-14.0	2,031
	May	11,648	6.5	9,836	-11.7	1,812
	June	12,293	4.8	10,355	2.8	1,938
	July	12,624	5.6	9,774	-8.5	2,850
	August	11,631	11.6	9,957	-4.8	1,674
	September	12,789	10.0	10,396	3.5	2,392
	October	12,829	15.5	10,806	6.7	2,023
	November	12,409	23.4	11,220	7.1	1,190
	December	15,244	21.1	12,360	12.6	2,884

Source: Ministry of Finance

Table 22: Japan's Exports and Imports in Yen Terms, 1979-1983

(in billions of yen, customs clearance basis, seasonally unadjusted)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1979		¥22,532	9.6%	¥24,245	44.9%	¥-1,714
1980		29,383	30.4	31,995	32.0	-2,613
1981		33,469	13.9	31,464	-1.7	2,005
1982		34,433	2.9	32,656	3.8	1,776
1983		34,909	1.4	30,015	-8.1	4,895
1982	January	2,284	18.6	2,692	10.5	-408
	February	2,704	9.8	2,623	9.1	82
	March	3,196	10.1	2,993	11.4	203
	April	3,032	11.3	2,911	10.7	121
	May	2,750	0.1	2,643	-3.8	107
	June	2,862	0.2	2,454	-3.0	409
	July	3,060	-0.7	2,734	-0.2	326
	August	2,685	-3.6	2,689	3.0	-5
	September	3,010	-0.6	2,598	4.0	412
	October	2,974	-3.9	2,715	4.1	259
	November	2,741	1.8	2,857	4.6	-116
	December	3,135	-1.0	2,749	-3.4	386
1983	January	2,134	-6.6	2,544	-5.5	-410
	February	2,616	-3.3	2,283	-13.0	334
	March	3,069	-4.0	2,586	-13.6	483
	April	2,912	-4.0	2,428	-16.6	484
	May	2,738	-0.4	2,316	-12.4	423
	June	2,935	2.6	2,470	0.7	466
	July	3,030	-1.0	2,345	-14.2	684
	August	2,824	5.2	2,417	-10.1	407
	September	3,130	4.0	2,545	-2.0	585
	October	3,032	2.0	2,552	-6.0	480
	November	2,908	6.1	2,628	-8.0	280
	December	3,581	14.2	2,902	5.6	679

Source: Ministry of Finance

Table 23: Japan's Export and Import Quantum (Volume) Indexes, 1979-1983

(1980 = 100)

		Exports		Imports	
		Index	Change Over Year-Earlier Period	Index	Change Over Year-Earlier Period
1979		n.a.	n.a.	n.a.	n.a.
1980		100.0	n.a.	100.0	n.a.
1981		110.1	10.1	97.4	-2.6
1982		107.5	-2.4	96.8	-0.6
1983		116.8	8.7	98.1	1.3
1982	January	88.0	10.0	103.3	6.4
	February	103.3	1.0	96.8	2.2
	March	120.6	1.5	109.7	7.7
	April	111.5	0.3	103.0	4.6
	May	102.6	-5.9	97.5	-3.4
	June	107.9	-4.1	89.5	-2.4
	July	114.2	-5.5	94.0	-5.4
	August	98.9	-7.0	92.8	1.2
	September	111.6	-4.5	89.4	-0.4
	October	110.3	-5.6	92.1	-3.0
	November	100.9	-1.3	94.7	-4.9
	December	120.5	-3.4	98.6	-9.4
1983	January	85.5	-2.8	97.3	-5.8
	February	104.9	1.5	86.0	-11.2
	March	122.8	1.8	98.9	-9.8
	April	116.2	4.2	95.2	-7.6
	May	111.4	8.6	92.9	-4.7
	June	119.2	10.5	97.8	9.3
	July	123.4	8.1	91.0	-3.2
	August	114.6	15.9	94.4	1.7
	September	123.6	10.8	98.5	10.2
	October	121.8	10.4	102.7	11.5
	November	116.3	15.3	106.1	12.0
	December	141.7	17.6	115.9	17.5

Source: Ministry of Finance

Table 24: Japan's Exports by Country, 1979-1983

(in millions of dollars, f.o.b. value basis)

	1979	1980	1981	1982	1983
Total Exports	$103,032	$129,807	$152,030	$138,831	$146,928
Developed Countries	48,759	61,172	73,668	67,995	76,563
United States	26,403	31,367	38,609	36,330	42,829
Canada	1,738	2,437	3,399	2,861	3,625
Western Europe	16,434	21,503	23,748	21,640	23,129
United Kingdom	3,097	3,782	4,789	4,813	4,983
Netherlands	1,671	2,061	1,902	1,661	1,726
Belgium	1,087	1,419	1,436	1,155	1,325
France	1,395	2,021	2,222	2,318	2,010
West Germany	4,266	5,756	5,968	5,018	5,877
European Community	12,685	16,650	18,894	17,064	18,523
Switzerland	749	1,158	1,146	1,017	1,144
Australia	2,607	3,389	4,779	4,581	4,280
New Zealand	585	676	912	929	962
South Africa	993	1,800	2,222	1,655	1,738
Developing Countries	46,889	59,480	68,848	62,435	61,435
Latin America	6,555	8,918	10,516	9,086	6,391
Mexico	841	1,224	1,705	576	579
Panama	895	1,416	2,210	2,925	2,169
Venezuela	785	835	925	1,179	349
Brazil	1,125	1,115	1,368	1,043	738
Southeast Asia	26,128	30,910	34,426	31,873	34,548
Korea	6,247	5,368	5,658	4,881	6,004
Taiwan	4,337	5,146	5,405	4,255	5,086
Hong Kong	3,379	4,761	5,311	4,718	5,289
Thailand	1,714	1,916	2,251	1,907	2,507
Singapore	2,679	3,911	4,468	4,373	4,448
Malaysia	1,507	2,061	2,424	2,502	2,771
Brunei	76	88	93	145	86
Philippines	1,622	1,683	1,928	1,803	1,744
Indonesia	2,124	3,458	4,123	4,261	3,552
India	780	915	1,197	1,408	1,431
Middle East and North Africa	10,735	14,359	17,732	16,946	17,160
Iran	925	1,530	1,486	935	2,820
Iraq	1,609	2,169	3,026	2,755	632
Saudi Arabia	3,829	4,856	5,876	6,621	6,687
Kuwait	886	1,273	1,648	1,790	1,763
United Arab Emirates	1,045	1,356	1,494	1,493	1,357
Subsaharan Africa	3,147	4,886	5,760	4,168	2,906
Liberia	931	1,416	1,690	1,009	624
Nigeria	807	1,494	2,159	1,209	568
Communist Countries	7,383	9,156	9,514	8,401	8,830
China	3,699	5,078	5,096	3,511	4,912
U.S.S.R.	2,462	2,778	3,259	3,899	2,821

Source: Ministry of Finance

Table 25: Japan's Imports by Country, 1979-1983

(in millions of dollars, c.i.f. value basis)

	1979	1980	1981	1982	1983
Total Imports	$110,672	$140,528	$143,290	$131,931	$126,393
Developed Countries	43,044	49,120	51,336	48,428	49,325
United States	20,431	24,408	25,297	24,179	24,648
Canada	4,105	4,724	4,464	4,441	4,430
Western Europe	10,106	10,437	11,541	10,149	11,087
United Kingdom	1,681	1,954	2,695	1,874	1,940
Netherlands	419	380	427	347	443
Belgium	381	372	337	338	376
France	1,078	1,296	1,171	1,215	1,302
West Germany	2,584	2,501	2,429	2,355	2,414
European Community	7,581	7,842	8,552	7,560	8,120
Switzerland	1,033	1,077	1,542	1,233	1,412
Australia	6,298	6,982	7,419	6,961	6,642
New Zealand	805	828	887	858	932
South Africa	1,299	1,741	1,728	1,840	1,587
Developing Countries	62,234	84,73[illegible]	84,223	76,069	70,060
Latin America	4,517	5,700	6,669	6,268	6,462
Mexico	483	934	1,437	1,522	1,889
Panama	179	61	131	107	68
Venezuela	142	691	912	723	570
Brazil	1,240	1,561	1,579	1,603	1,669
Southeast Asia	26,195	31,751	31,930	29,985	27,988
Korea	3,359	2,996	3,389	3,254	3,365
Taiwan	2,476	2,293	2,523	2,443	2,622
Hong Kong	664	569	669	622	670
Thailand	1,169	1,119	1,061	1,041	1,019
Singapore	1,473	1,507	1,944	1,826	1,468
Malaysia	3,257	3,471	2,927	3,010	3,131
Brunei	1,891	3,245	2,908	2,636	2,367
Philippines	1,583	1,951	1,731	1,576	1,307
Indonesia	8,794	13,167	13,305	12,005	10,432
India	1,053	1,014	1,057	1,122	1,131
Middle East and North Africa	29,377	44,500	42,670	37,764	33,796
Iran	4,271	4,101	1,920	2,567	4,231
Iraq	1,816	4,339	934	780	141
Saudi Arabia	12,134	19,538	21,483	20,528	15,530
Kuwait	4,414	3,458	3,609	1,627	1,387
United Arab Emirates	3,633	8,190	8,836	7,983	7,793
Subsaharan Africa	1,629	2,139	2,405	1,610	1,345
Liberia	425	338	312	166	38
Nigeria	43	120	340	8	7
Communist Countries	5,392	6,669	7,724	7,431	7,004
China	2,955	4,323	5,292	5,352	5,087
U.S.S.R.	1,911	1,860	2,021	1,682	1,456

Source: Ministry of Finance

Table 26: Japan's Exports by Commodity, 1979-1983

(in millions of dollars, f.o.b. value basis)

	1979	1980	1981	1982	1983
Total Exports	$103,032	$129,807	$152,030	$138,831	$146,928
Food and Live Animals	1,069	1,446	1,583	1,270	1,246
Fish and Fish Products	608	809	757	681	663
Beverages and Tobacco	138	142	156	131	144
Crude Materials (excl. fuels)	1,153	1,355	1,381	1,159	1,194
Textile Fibers and Waste	561	702	762	619	644
Mineral Fuels	356	504	554	411	432
Animal and Vegetable Oils and Fats	115	114	96	88	118
Chemicals	6,100	6,767	6,841	6,365	6,983
Chemical Elements and Compounds	2,822	3,051	2,961	2,751	2,945
Organic Chemicals	2,209	2,276	2,184	2,040	2,177
Inorganic Chemicals	604	768	767	702	755
Plastic Materials	1,675	1,867	1,915	1,798	2,039
Manufactured Goods Classified Mainly by Material	26,140	31,171	33,687	31,100	28,935
Tires and Other Rubber Manufactures	1,142	1,677	2,002	1,665	1,823
Paper and Paper Products	717	854	878	846	872
Textiles (excl. fibers and apparel)	3,997	5,094	5,833	5,075	5,311
Yarn and Thread	768	1,150	1,253	1,022	1,122
Woven Fabrics	2,742	3,331	3,937	3,438	3,626
Made-up Articles (excl. clothing)	487	613	643	615	563
Nonmetallic Mineral Manufactures	1,547	1,863	2,122	1,945	2,150
Iron and Steel	14,113	15,454	16,669	15,645	12,843
Bars, Rods, Shapes and Sections	1,955	2,222	2,015	2,116	1,816
Wire Rods	723	782	539	339	529
Universals, Plates and Sheets	5,168	5,388	4,989	4,753	5,339
Hoops and Strip	1,854	1,794	1,402	1,191	1,309
Tubes, Pipes and Fittings	3,915	4,747	7,218	6,795	3,370
Nonferrous Metals	1,139	1,917	1,467	1,282	1,588
Copper and Alloys	591	1,112	637	590	839
Metal Manufactures	3,127	3,947	4,320	4,288	3,941
Finished Structural Parts and Structures	617	1,006	1,045	1,103	1,047
Nails and Industrial Fasteners	506	508	513	431	473
Tools	476	606	643	551	594
Machinery and Transport Equipment	55,284	71,156	86,362	78,069	85,133
Nonelectric Machinery	14,872	18,089	22,628	20,317	23,103
Power Generating Machinery	2,103	2,548	3,174	2,792	2,992
Internal Combustion Engines	1,433	1,787	2,294	1,955	2,240
Agricultural Machinery	879	918	1,082	950	1,160

(continued)

Table 26: Japan's Exports by Commodity, 1979-1983 (continued)

(in millions of dollars, f.o.b. value basis)

	1979	1980	1981	1982	1983
Office Machinery	$ 1,831	$ 2,280	$ 2,637	$ 3,139	$ 5,139
Calculators	654	795	629	542	554
Data-Processing Equipment	372	542	873	1,361	2,849
Metalworking Machinery	1,534	1,743	2,071	1,441	1,489
Lathes	376	524	577	372	302
Textile Machinery	716	871	882	668	759
Construction and Mining Machinery	1,012	1,314	1,722	1,885	1,725
Excavators	373	502	673	687	619
Heating and Cooling Machinery	1,133	1,524	2,554	2,060	2,142
Pumps and Centrifuges	1,035	1,219	1,791	1,495	1,535
Mechanical Handling Equipment	959	1,313	1,614	1,440	1,404
Bearings	482	556	590	497	512
Electric Machinery	14,690	18,695	22,466	19,718	22,886
Electric Power Machinery	1,243	1,503	2,039	1,787	1,873
Generators	375	451	645	666	628
Insulated Wire and Cable	583	765	947	826	781
Telecommunications Equipment	6,590	8,158	9,801	8,025	8,867
Televisions	1,283	1,660	1,929	1,489	1,472
Radios	2,497	3,009	3,223	2,401	2,440
Microphones, Loudspeakers and Amplifiers	815	1,044	1,112	739	848
Household Electric Appliances	736	1,055	1,310	1,106	1,412
Electronic Tubes and Semiconductors	1,679	2,307	2,662	2,686	3,731
Automotive Electrical Equipment	415	515	588	540	602
Electronic Measuring and Controlling Instruments	453	510	604	648	784
Transport Equipment	25,721	34,373	41,267	38,033	39,143
Railway Equipment	520	676	495	519	411
Road Motor Vehicles	17,021	23,273	26,521	24,559	26,123
Cars	11,964	16,115	18,445	18,015	19,535
Assembled Trucks and Buses	3,119	4,681	6,069	4,940	5,175
Truck and Bus Chassis with Engines	1,879	2,373	1,896	1,457	1,371
Road Motor Vehicle Parts	1,743	2,015	2,565	2,564	3,423
Motorcycles and Parts	2,190	3,179	3,813	3,062	2,667
Ships and Boats	3,869	4,682	7,274	6,870	5,996
Tankers	509	986	1,753	1,468	719
Cargo Ships	1,972	1,753	2,657	2,924	3,086
Miscellaneous Manufactured Goods	11,563	15,557	19,985	18,723	21,198
Clothing	351	500	578	547	659
Scientific, Medical and Optical Instruments	3,861	4,526	5,512	4,842	8,213
Camera Lenses	488	551	656	492	479
Still Cameras	901	991	1,091	896	1,127
Watches and Clocks	1,286	1,734	2,014	1,441	1,550
Stereo Equipment and Audio and Video Tape Recorders and Players	2,102	4,066	6,274	6,163	7,439
Video Tape Recorders	n.a.	n.a.	n.a.	4,337	5,304
Phonograph Records and Tapes	475	683	1,034	1,358	1,383
Unclassified Commodities	1,114	1,596	1,386	1,516	1,546

Source: Ministry of Finance

Table 27: Japan's Imports by Commodity, 1979-1983

(in millions of dollars, c.i.f. value basis)

	1979	1980	1981	1982	1983
Total Imports	$110,672	$140,528	$143,290	$131,931	$126,393
Food and Live Animals	13,683	13,954	15,122	13,745	14,051
Meat and Meat Products	1,713	1,523	1,927	1,711	1,772
Fish and Fish Products	3,957	3,026	3,653	3,918	3,884
Fresh or Frozen Shrimp and Lobster	1,440	1,106	1,277	1,372	1,349
Grains and Cereal Products	3,719	4,426	4,990	3,960	4,191
Wheat	1,090	1,229	1,273	1,120	1,126
Corn for Mixed Feeds	1,088	1,507	1,867	1,381	1,572
Sorghum for Mixed Feeds	607	591	546	419	386
Fruits and Vegetables	1,356	1,387	1,678	1,609	1,613
Sugar	708	1,225	732	474	393
Coffee	744	757	543	615	649
Animal Feeds	485	586	509	404	548
Beverages and Tobacco	733	712	792	830	845
Unmanufactured Tobacco	358	364	422	446	441
Crude Materials (excl. fuels)	21,842	23,458	19,720	18,636	17,943
Oilseeds and Oil Nuts	1,842	1,880	2,018	1,727	1,952
Soybeans	1,272	1,310	1,396	1,156	1,375
Rubber	552	726	625	451	597
Logs and Lumber	7,353	6,909	4,459	4,546	3,887
Logs	6,270	5,680	3,674	3,626	3,045
Wood Pulp	734	1,079	863	845	888
Textile Fibers and Waste	2,449	2,393	2,404	2,327	2,077
Wool	726	689	688	712	560
Cotton	1,264	1,359	1,416	1,271	1,145
Crude Minerals	716	877	801	816	838
Metal Ores, Concentrates and Scrap	6,850	8,430	7,284	6,757	6,513
Iron Ore and Concentrates	2,999	3,449	3,504	3,630	3,147
Nonferrous Metal Ores	2,879	3,731	3,011	2,530	2,403
Copper	1,512	2,040	1,676	1,419	1,475
Nonferrous Scrap	479	752	502	333	507
Mineral Fuels	45,286	69,991	72,563	65,618	58,925
Coal	3,549	4,458	5,521	5,782	4,877
Coking Coal	3,428	4,083	4,685	4,849	4,053
Petroleum and Products	37,971	57,851	58,674	51,409	45,705
Crude Petroleum	33,471	52,763	53,343	46,274	40,063
Petroleum Products	4,500	5,088	5,331	5,135	5,642
Residual Fuel Oil	2,053	2,215	1,848	1,691	1,807
Natural and Manufactured Gas	3,760	7,671	8,357	8,416	8,332
Liquefied Petroleum Gas	1,744	3,192	3,234	3,219	3,285
Animal and Vegetable Oils and Fats	354	303	315	275	268

(continued)

Table 27: Japan's Imports by Commodity, 1979-1983 (continued)

(in millions of dollars, c.i.f. value basis)

	1979	1980	1981	1982	1983
Chemicals	$ 5,178	$ 6,202	$ 6,487	$ 6,824	$ 7,207
Chemical Elements and Compounds	2,255	2,834	3,028	3,193	3,554
Organic Chemicals	1,464	1,679	1,847	1,830	2,112
Inorganic Chemicals	533	642	669	556	526
Pharmaceuticals	924	1,074	1,150	1,249	1,215
Plastic Materials	507	563	644	672	672
Manufactured Goods Classified Mainly by Material	9,411	10,579	10,158	9,848	10,147
Wood Manufactures	801	1,169	912	813	774
Wood Chips	594	949	745	643	603
Paper and Paper Products	339	502	479	513	522
Textiles (excl. fibers and apparel)	2,031	1,650	1,628	1,602	1,487
Nonmetallic Mineral Manufactures	1,146	1,136	1,118	1,032	1,101
Diamonds	570	565	543	477	526
Iron and Steel	899	894	1,067	1,216	1,349
Nonferrous Metals	3,416	4,480	4,189	3,885	4,127
Copper and Alloys	741	684	639	611	420
Aluminum and Alloys	1,030	1,611	1,849	1,938	2,165
Metal Manufactures	385	424	428	471	500
Machinery and Transport Equipment	7,331	8,756	9,240	8,181	9,385
Nonelectric Machinery	3,196	3,789	3,597	3,777	3,665
Power Generating Machinery	400	523	488	595	670
Office Machinery	783	1,032	1,027	1,003	1,026
Computers, Peripheral Equipment and Parts	732	981	967	951	979
Electric Machinery	2,364	2,722	2,939	2,994	3,221
Electronic Tubes and Semiconductors	639	713	789	747	909
Telecommunications Equipment	321	348	411	416	427
Electronic Measuring and Controlling Instruments	399	482	499	542	566
Transport Equipment	1,771	2,246	2,703	1,410	2,499
Cars	575	452	326	348	398
Aircraft	743	991	1,340	800	1,472
Ships and Boats	254	575	844	78	390
Miscellaneous Manufactured Goods	5,214	5,031	5,386	5,398	5,204
Clothing	1,801	1,530	1,802	1,832	1,501
Scientific, Medical and Optical Instruments	735	802	765	737	790
Unclassified Commodities	1,642	1,543	3,509	2,576	2,418

Source: Ministry of Finance

Table 28: Japan's Dollar-Based Trade with the United States, 1979-1983

(in millions of dollars, customs clearance basis, seasonally unadjusted)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1979		$26,403	6.0%	$20,431	38.1%	$ 5,972
1980		31,367	18.8	24,408	19.5	6,959
1981		38,609	23.1	25,297	3.6	13,312
1982		36,330	-5.9	24,179	-4.4	12,151
1983		42,829	17.9	24,648	1.9	18,181
1982	January	2,716	16.4	2,110	1.1	607
	February	3,096	7.2	1,940	-9.9	1,156
	March	3,247	2.4	2,100	-10.0	1,147
	April	3,258	5.8	2,245	-1.3	1,013
	May	3,106	1.9	2,009	3.7	1,097
	June	3,140	-3.6	2,089	1.5	1,051
	July	3,232	-6.4	2,129	0.9	1,103
	August	2,704	-12.5	2,011	3.1	692
	September	3,202	-11.2	1,913	2.9	1,289
	October	2,896	-18.7	1,806	-11.2	1,090
	November	2,725	-17.0	1,776	-11.6	949
	December	3,009	-21.5	2,051	-17.7	958
1983	January	2,525	-7.0	1,921	-9.0	604
	February	2,825	-8.8	1,727	-11.0	1,098
	March	3,253	0.2	1,985	-5.5	1,268
	April	3,418	4.9	1,865	-16.9	1,553
	May	3,235	4.2	2,096	4.3	1,139
	June	3,684	17.3	3,226	6.6	1,459
	July	3,687	14.1	2,163	1.6	1,523
	August	3,393	25.5	2,055	2.2	1,339
	September	4,084	27.5	2,002	4.7	2,083
	October	4,041	39.5	2,068	14.5	1,973
	November	4,020	47.5	2,086	17.5	1,935
	December	4,663	55.0	2,455	19.7	2,208

Source: Ministry of Finance

Table 29: Japan's Yen-Based Trade with the United States, 1979-1983

(in billions of yen, customs clearance basis, seasonally unadjusted)

		Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1979		¥ 5,773	9.8%	¥4,457	43.4%	¥1,316
1980		7,118	23.3	5,558	24.7	1,560
1981		8,519	19.7	5,552	-0.1	2,966
1982		9,015	5.8	5,991	7.9	3,025
1983		10,179	12.9	5,855	-2.3	4,323
1982	January	602	26.7	467	9.6	135
	February	718	22.1	449	2.5	269
	March	770	16.8	498	2.7	273
	April	802	22.8	552	14.5	250
	May	737	11.2	477	13.3	260
	June	766	4.9	509	10.4	257
	July	827	5.6	545	14.0	282
	August	697	-4.4	517	12.1	179
	September	829	-0.2	495	15.7	334
	October	776	-4.9	484	3.9	292
	November	743	-1.7	485	4.8	258
	December	750	-10.3	514	-5.3	236
1983	January	584	-3.0	447	-4.3	137
	February	670	-6.7	409	-8.9	261
	March	768	-0.3	469	-5.8	299
	April	815	1.6	445	-19.4	370
	May	761	3.3	494	3.6	267
	June	880	14.9	531	4.3	349
	July	885	7.0	519	-4.8	366
	August	824	18.2	499	-3.5	325
	September	1,000	20.6	490	-1.0	510
	October	955	23.1	488	0.8	467
	November	942	26.8	489	0.8	454
	December	1,095	46.0	576	12.1	519

Source: Ministry of Finance

Table 30: Yen-Dollar Exchange Rate Used to Convert Customs Clearance Trade Data, 1979-1983*

		Exports	Imports
1979	Average	¥217.47	¥217.46
1980	Average	227.67	227.85
1981	Average	219.90	219.94
1982	Average	248.33	248.30
1983	Average	237.52	237.59
1982	January	221.65	221.36
	February	231.73	231.15
	March	237.23	237.03
	April	246.17	246.01
	May	237.28	237.25
	June	244.03	243.66
	July	256.01	256.07
	August	257.59	257.18
	September	258.80	258.60
	October	267.85	268.14
	November	272.48	272.81
	December	249.13	250.33
1983	January	231.43	232.89
	February	237.15	237.03
	March	236.08	235.99
	April	238.57	238.61
	May	235.09	235.43
	June	238.78	238.48
	July	239.98	239.93
	August	242.80	242.70
	September	244.73	244.80
	October	236.36	236.15
	November	234.31	234.22
	December	234.90	234.81

*Reflects the exchange rate that prevailed at the time export or import contracts were signed.

Source: Ministry of Finance

Table 31: Yen-Dollar Exchange Rate on Tokyo Foreign Exchange Market, 1979-1983*

1979	Average	¥219.14
1980	Average	226.75
1981	Average	220.54
1982	Average	249.05
1983	Average	237.52
1982	January	224.59
	February	235.17
	March	240.72
	April	244.86
	May	236.54
	June	251.04
	July	255.12
	August	258.82
	September	262.65
	October	271.40
	November	265.13
	December	242.52
1983	January	232.94
	February	236.24
	March	238.03
	April	237.71
	May	234.80
	June	240.15
	July	240.50
	August	244.33
	September	242.77
	October	233.01
	November	235.31
	December	234.42

*Inter-bank rates, middle rate, spot market for overnight delivery.

Source: International Monetary Fund

Table 32: U.S. International Transactions, 1979-1983

(in millions of dollars, IMF value basis)

	1979	1980	1981	1982	1983(p)
Merchandise Trade Balance	$-27,555	$-25,544	$-28,067	$-36,389	$-60,550
Exports	184,473	224,237	237,019	211,217	200,203
Imports	212,028	249,781	265,086	247,606	260,753
Services Balance	32,241	33,022	39,590	33,210	28,371
Military	-1,778	-2,286	-1,355	179	483
Travel	-2,000	-1,291	-812	-2,894	-5,240
Other Transportation	-935	-143	214	799	997
Investment Income	31,218	29,570	33,483	27,304	23,581
Direct	31,826	27,676	24,992	18,044	15,004
Other	-608	1,894	8,491	9,260	8,577
Fees and Royalties	5,352	6,265	6,582	6,802	7,108
Other Services	383	907	1,478	1,020	1,442
Unilateral Transfers Balance	-5,649	-7,056	-6,931	-8,034	-8,599
Current Account Balance	-964	422	4,592	-11,213	-40,778
Private Capital Flows (net)	-7,036	-33,402	-25,101	-22,654	33,731
Direct Investments (net)	-13,345	-5,556	12,318	13,398	1,906
Banking Flows (net)	6,394	-36,095	-41,697	-45,083	26,329
Other Flows (net)	-85	8,249	4,278	9,031	n.a.
U.S. Government Assets (other than official reserves) (net)	-3,746	-5,140	-5,078	-5,732	-4,897
U.S. Official Reserve Assets	-1,133	-8,155	-5,175	-4,965	-1,196
Foreign Official Reserve Assets	-13,665	15,566	5,430	3,172	6,083
Allocations of Special Drawing Rights	1,139	1,152	1,093	0	0
Statistical Discrepancy	25,404	29,556	24,238	41,390	7,055

Note: For capital transactions, credits(+) indicate inflows and debits(-) indicate outflows.

Source: Department of Commerce

Table 33: U.S. Exports and Imports, 1979-1983

(in millions of dollars, exports f.a.s. value basis/imports Customs value basis, seasonally unadjusted)

		Exports*	Change Over Year-Earlier Period	Imports	Change Over Year-Earlier Period	Trade Balance
1979		$182,025	26.6%	$210,286	19.4%	$-28,261
1980		220,786	21.3	245,262	16.6	-24,476
1981		233,739	5.9	260,982	6.4	-27,243
1982		212,275	-9.2	243,952	-6.5	-31,677
1983		200,538	-5.5	258,048	5.8	-57,510
1982	January	17,515	-2.5	22,606	0.2	-5,091
	February	17,637	-6.4	18,265	-13.5	-628
	March	20,161	-12.1	20,823	-2.5	-662
	April	18,611	-9.3	17,882	-21.4	729
	May	19,001	-4.9	20,805	-2.9	-1,804
	June	19,416	-4.2	21,811	-3.1	-2,395
	July	17,259	-7.1	19,763	-2.8	-2,504
	August	16,265	-8.4	22,868	1.2	-6,603
	September	16,717	-11.2	20,188	-2.5	-3,471
	October	17,275	-13.2	21,219	-9.7	-3,944
	November	15,695	-17.6	19,002	-15.6	-3,307
	December	16,724	-12.6	18,720	-4.6	-1,996
1983	January	16,205	-7.5	20,149	-10.9	-3,944
	February	15,541	-11.9	17,593	-3.7	-2,052
	March	18,330	-9.1	20,311	-2.5	-1,981
	April	16,712	-10.2	19,808	10.8	-3,096
	May	16,235	-14.6	21,933	5.4	-5,698
	June	17,558	-9.6	21,763	-0.2	-4,205
	July	15,895	-7.9	21,584	9.2	-5,689
	August	15,640	-3.8	23,059	0.8	-7,419
	September	16,845	0.8	21,736	7.7	-4,891
	October	17,251	-0.1	25,130	18.4	-7,879
	November	16,817	7.1	23,305	22.6	-6,488
	December	17,510	4.7	21,678	15.8	-4,168

*Domestic and foreign merchandise, including Department of Defense shipments.

Source: Department of Commerce

Table 34: U.S. Exports by Country, 1979-1983

(in millions of dollars, f.a.s. value basis)

	1979	1980	1981	1982	1983
Total	$182,025	$220,786	$233,739	$212,275	$200,538
Japan	17,581	20,790	21,823	20,966	21,894
Western Europe	54,342	67,512	65,377	60,054	55,980
United Kingdom	10,635	12,694	12,439	10,645	10,621
West Germany	8,478	10,960	10,277	9,291	8,737
Netherlands	6,917	8,669	8,595	8,604	7,767
France	5,587	7,485	7,341	7,110	5,961
Belgium-Luxembourg	5,187	6,661	5,765	5,229	5,049
Italy	4,362	5,511	5,360	4,616	3,908
European Community	42,592	53,679	52,363	47,932	44,311
Switzerland	3,660	3,781	3,022	2,707	2,960
Spain	2,506	3,179	3,397	3,456	2,763
Sweden	1,515	1,767	1,842	1,689	1,581
Canada	33,096	35,395	39,564	33,720	38,244
Asia (excl. Japan)	29,466	35,622	38,413	40,912	39,725
Saudi Arabia	4,875	5,769	7,327	9,026	7,903
Korea	4,190	4,685	5,116	5,529	5,925
Taiwan	3,272	4,337	4,305	4,367	4,667
Singapore	2,330	3,033	3,003	3,214	3,759
Hong Kong	2,083	2,686	2,635	2,453	2,564
Israel	1,855	2,045	2,521	2,271	2,017
India	1,167	1,689	1,748	1,599	1,828
Philippines	1,570	1,999	1,787	1,854	1,807
Malaysia	932	1,337	1,537	1,736	1,684
Indonesia	982	1,545	1,302	2,025	1,466
Western Hemisphere (excl. Canada)	28,459	38,718	42,102	33,592	25,726
Mexico	9,847	15,145	17,789	11,817	9,082
Venezuela	3,934	4,573	5,445	5,206	2,811
Brazil	3,442	4,344	3,798	3,423	2,557
Colombia	1,409	1,736	1,771	1,903	1,514
Africa	6,299	9,060	11,097	10,271	8,768
Egypt	1,433	1,874	2,159	2,875	2,813
South Africa	1,413	2,464	2,912	2,368	2,129
Nigeria	632	1,150	1,523	1,295	864
Australia and Oceania	4,319	4,876	6,436	5,700	4,827
Australia	3,617	4,093	5,242	4,535	3,954
Eastern Europe	5,684	3,860	4,338	3,610	2,891
Soviet Union	3,607	1,513	2,431	2,587	2,003
Communist Countries in Asia	1,725	3,756	3,613	2,945	2,194
China	1,724	3,755	3,603	2,912	2,173

Source: Department of Commerce

Table 35: U.S. Imports by Country, 1979-1983

(in millions of dollars, f.a.s./Customs value basis*)

	1979	1980	1981	1982	1983
Total	$206,327	$240,834	$261,305	$243,952	$258,048
Japan	26,248	30,701	37,612	37,744	41,183
Western Europe	41,681	46,416	51,855	52,346	53,884
United Kingdom	8,028	9,755	12,835	13,095	12,470
West Germany	10,955	11,681	11,379	11,975	12,695
Netherlands	1,853	1,910	2,366	2,494	2,970
France	4,768	5,247	5,851	5,545	6,025
Belgium-Luxembourg	1,741	1,914	2,297	2,396	2,412
Italy	4,918	4,313	5,189	5,301	5,455
European Community	33,293	35,958	41,624	42,509	43,892
Switzerland	2,076	2,787	2,448	2,340	2,494
Spain	1,303	1,209	1,533	1,505	1,533
Sweden	1,303	1,209	1,714	1,993	2,429
Canada	38,046	41,455	46,414	46,477	52,130
Asia (excl. Japan)	39,894	47,091	52,524	45,139	48,035
Saudi Arabia	7,983	12,509	14,391	7,443	3,627
Korea	4,047	4,147	5,141	5,637	7,148
Taiwan	5,902	6,850	8,049	8,893	11,204
Singapore	1,467	1,920	2,114	2,195	2,868
Hong Kong	3,995	4,736	5,428	5,540	6,394
Israel	750	943	1,243	1,164	1,255
India	1,038	1,098	1,202	1,404	2,191
Philippines	1,490	1,730	1,964	1,806	2,001
Malaysia	2,146	2,577	2,183	1,885	2,124
Indonesia	3,621	5,183	6,022	4,224	5,285
Western Hemisphere (excl. Canada)	30,463	37,034	39,022	37,990	41,743
Mexico	8,800	12,520	13,765	15,566	16,776
Venezuela	5,166	5,297	5,566	4,768	4,938
Brazil	3,118	3,715	4,475	4,285	4,946
Colombia	1,209	1,241	819	801	970
Africa	24,382	32,251	27,071	17,770	14,425
Egypt	381	458	397	547	303
South Africa	2,616	3,321	2,445	1,967	2,027
Nigeria	8,162	11,105	9,249	7,045	3,736
Australia and Oceania	3,072	3,392	3,353	3,131	3,044
Australia	2,164	2,509	2,465	2,287	2,222
Eastern Europe	1,866	1,433	1,555	1,067	1,359
Soviet Union	874	453	348	228	347
Communist Countries in Asia	597	1,056	1,897	2,287	2,245
China	592	1,054	1,892	2,284	2,244

*Imports are valued on a f.a.s. basis in 1979, 1980 and 1981 and on a Customs basis in 1982 and 1983. The difference between the two valuation bases is negligible.

Source: Department of Commerce

Table 36: U.S. Exports by Commodity, 1979-1983

(in millions of dollars, f.a.s. value basis)

	1979	1980	1981	1982	1983
Total Exports*	$178,578	$216,592	$228,961	$207,158	$195,969
Agricultural Commodities	34,745	41,256	43,338	36,623	36,108
Nonagricultural Commodities	143,833	175,336	185,623	170,535	159,862
Food and Live Animals	22,245	27,744	30,291	23,950	24,166
Meat and Meat Products	1,127	1,293	1,482	1,285	1,191
Fish and Fish Products	1,028	914	1,083	995	917
Grain and Cereal Products	14,451	18,079	19,457	14,747	15,152
Wheat	5,264	6,375	7,844	6,676	6,235
Corn	7,022	8,570	8,014	5,683	6,480
Sorghum	686	1,080	1,174	720	731
Rice	850	1,285	1,526	997	926
Vegetables and Fruits	2,130	2,930	3,314	2,716	2,444
Animal Feeds	2,317	2,878	2,739	2,473	2,802
Beverages and Tobacco	2,337	2,663	2,915	3,026	2,813
Unmanufactured Tobacco	1,184	1,334	1,458	1,547	1,462
Cigarettes	909	1,055	1,229	1,235	1,126
Inedible Crude Materials	20,755	23,791	20,993	19,248	18,596
Hides and Skins	992	694	700	778	807
Soybeans	5,708	5,883	6,200	6,240	5,925
Rubber	579	695	625	553	543
Logs and Lumber	2,798	2,675	2,059	2,095	2,104
Paper Base Stocks	1,644	2,454	2,315	1,964	1,916
Raw Cotton	2,198	2,864	2,260	1,955	1,817
Steel Scrap	1,142	1,226	639	610	637
Nonferrous Ores and Scrap	1,920	3,019	1,835	1,413	1,456
Mineral Fuels	5,616	7,982	10,279	12,729	9,500
Bituminous Coal	3,328	4,523	5,806	5,934	4,008
Petroleum and Products	1,914	2,833	3,696	5,947	4,557
Animal and Vegetable Oils and Fats	1,845	1,946	1,750	1,541	1,459
Inedible Tallow	655	677	645	572	525
Chemicals	17,306	20,740	21,187	19,891	19,751
Chemical Elements and Compounds	7,704	8,636	9,202	8,541	8,378
Organic Chemicals	5,055	5,697	5,929	5,440	5,326
Inorganic Chemicals	2,649	2,938	3,274	3,101	3,051
Pharmaceuticals	1,591	1,932	2,165	2,275	2,494
Fertilizers	1,404	2,265	1,735	1,386	1,267
Plastic Materials	3,241	3,884	3,809	3,650	3,732
Manufactured Goods Classified Chiefly by Material	16,236	22,255	20,633	16,739	14,852
Paper and Paper Products	1,967	2,831	2,961	2,653	2,553
Textiles (excl. clothing)	3,189	3,632	3,619	2,784	2,368
Nonmetallic Mineral Products	1,949	2,209	2,194	1,805	1,770
Steel Mill Products	2,227	2,998	2,801	2,101	1,415

(continued)

Table 36: U.S. Exports by Commodity, 1979-1983 (continued)

(in millions of dollars, f.a.s. value basis)

	1979	1980	1981	1982	1983
Nonferrous Metals and Alloys	$ 1,609	$ 2,964	$ 2,046	$ 1,768	$ 1,606
Aluminum and Alloys	899	2,022	1,297	1,026	1,010
Metal Manufactures	3,431	4,205	4,769	3,981	3,444
Machinery and Transport Equipment	70,491	84,629	95,736	87,148	82,578
Machinery	44,741	55,790	62,946	59,324	54,309
Power Generating Machinery	6,840	8,428	9,465	9,461	8,718
Aircraft Engines and Parts	1,423	1,915	2,348	2,570	2,788
Automotive Engines and Parts	1,631	1,688	1,975	1,955	2,082
Agricultural Machinery and Parts	2,636	3,104	3,523	2,389	1,589
Construction Equipment and Parts	1,234	1,628	1,823	1,254	766
Mining and Drilling Machinery and Parts	2,263	3,140	4,073	4,905	2,911
Printing and Bookbinding Machinery and Parts	521	631	729	600	478
Metalworking Machinery	1,391	1,756	2,158	1,611	1,121
Heating and Cooling Machinery and Parts	1,955	2,347	2,524	2,291	1,854
Pumps and Parts	893	1,037	1,182	1,184	948
Centrifuges and Filtering and Purifying Machinery and Parts	599	725	803	774	734
Office Machinery and Computers	6,475	8,709	9,810	10,206	11,669
Computers and Parts	3,604	4,791	5,157	5,349	5,750
Telecommunications Equipment	2,957	3,454	3,856	3,864	3,804
Electric Machinery and Parts	8,635	10,485	11,494	11,285	11,936
Electric Power Apparatus	1,802	2,179	2,495	2,434	2,379
Household Appliances	666	796	841	673	611
Transport Equipment	25,750	28,839	32,791	27,824	28,269
Passenger Cars	4,611	3,919	3,920	2,860	4,200
Trucks and Buses	2,095	2,037	2,149	1,765	1,411
Car and Truck Parts	6,148	6,058	3,157	3,039	3,254
Tractor Parts	1,173	1,473	1,481	1,156	972
Commercial Aircraft	6,177	8,256	8,613	4,848	5,691
Military Aircraft	838	949	1,712	2,388	1,845
Aircraft Parts	2,646	3,555	4,286	4,401	4,526
Ships, Boats and Floating Structures	306	644	965	1,302	811
Miscellaneous Manufactured Goods	12,643	16,347	16,748	15,961	15,246
Furniture	385	521	697	639	593
Clothing	931	1,203	1,232	952	818
Professional, Scientific and Medical Equipment and Measuring and Controlling Instruments	4,289	5,256	5,980	6,003	5,856
Photographic Supplies	1,227	1,507	1,501	1,396	1,366
Printed Material	956	1,097	1,297	1,341	1,324
Toys and Sporting Goods	882	1,012	1,072	957	878
Musical Instruments and Parts	693	816	952	942	860
Unclassified Commodities	9,103	8,496	8,428	6,924	7,009

*Domestic merchandise only, including Department of Defense shipments.

Source: Department of Commerce

Table 37: U.S. Imports by Commodity, 1979-1983

(in millions of dollars, f.a.s./Customs value basis*)

	1979	1980	1981	1982	1983
Total Imports	$206,327	$240,834	$261,305	$243,952	$258,048
Agricultural Commodities	16,881	17,425	17,003	15,422	16,534
Nonagricultural Commodities	189,446	223,409	244,301	228,530	241,514
Food and Live Animals	15,171	15,763	15,238	14,453	15,412
Meat and Meat Products	2,539	2,346	1,996	2,075	2,034
Fish and Fish Products	2,639	2,612	2,962	3,143	3,594
Vegetables and Fruits	2,062	2,047	2,587	2,816	2,920
Sugar	974	1,988	2,142	863	1,047
Coffee	3,820	3,872	2,622	2,730	2,590
Beverages and Tobacco	2,566	2,772	3,138	3,364	3,408
Alcoholic Beverages	2,013	2,220	2,399	2,513	2,626
Inedible Crude Materials	10,651	10,496	11,193	8,589	9,590
Crude Rubber	897	816	778	535	655
Lumber	2,913	2,134	2,033	1,737	2,719
Paper Base Stocks	1,547	1,773	1,824	1,522	1,508
Iron Ore and Concentrates	923	773	951	497	452
Nonferrous Ores and Concentrates	1,672	1,932	2,038	1,552	1,306
Bauxite	1,019	1,214	1,280	1,103	994
Mineral Fuels	60,061	79,078	81,417	65,409	57,952
Petroleum and Petroleum Products	56,046	73,771	75,577	59,396	52,325
Crude Petroleum	46,100	62,014	61,940	45,862	36,809
Petroleum Products	9,946	11,757	13,637	13,535	15,516
Fuel Oil	6,563	7,772	9,236	8,440	9,062
Natural and Manufactured Gas	3,579	5,155	5,720	5,934	5,530
Animal and Vegetable Oils and Fats	740	533	479	406	495
Chemicals	7,485	8,583	9,446	9,494	10,779
Chemical Elements and Compounds	4,218	4,851	5,333	5,605	6,044
Organic Chemicals	2,159	2,539	2,974	2,960	3,477
Inorganic Chemicals	2,059	2,313	2,359	2,645	2,568
Pharmaceuticals	441	508	583	563	703
Fertilizers	976	1,104	1,181	963	997
Manufactured Goods Classified Chiefly by Material	30,065	32,190	37,292	33,148	34,833
Tires and Tubes	1,136	1,143	1,331	1,239	1,406
Plywood and Veneers	855	632	705	544	754
Paper and Paper Products	3,357	3,587	3,875	3,848	4,215
Newsprint	2,322	2,685	2,871	2,749	2,759
Textiles (excl. clothing)	2,216	2,493	3,046	2,808	3,225
Glass, Glassware and Tableware	1,097	1,224	1,349	1,351	1,602
Gem Diamonds	1,862	2,252	2,198	1,917	2,275

(continued)

Table 37: U.S. Imports by Commodity, 1979-1983 (continued)

(in millions of dollars, f.a.s./Customs value basis*)

	1979	1980	1981	1982	1983
Steel Mill Products	$ 6,764	$ 6,686	$10,347	$ 9,184	$ 6,338
Wire Rods and Bars	1,524	1,417	1,747	1,469	1,307
Plates and Sheets	3,071	2,502	2,998	2,543	2,993
Tubes, Pipes and Fittings	1,543	2,193	4,836	4,466	1,366
Nonferrous Metals and Alloys	6,320	7,623	6,952	5,321	7,422
Precious Metals	1,642	2,440	1,581	1,301	2,636
Copper and Alloys	984	1,470	1,279	988	1,341
Aluminum and Alloys	1,029	974	1,355	1,336	1,629
Metal Manufactures	3,671	3,731	4,170	4,294	4,504
Machinery and Transport Equipment	53,678	60,546	69,627	73,320	86,131
Machinery	28,045	31,904	38,212	39,457	46,975
Power Generating Machinery (incl. engines)	3,472	3,833	4,578	4,533	5,274
Agricultural Machinery and Tractors	1,419	1,373	1,282	1,042	1,196
Textile Machinery	830	889	974	925	1,059
Metalworking Machinery	1,442	1,814	1,992	1,879	1,480
Office Machinery and Computers	2,500	2,929	3,563	4,299	6,759
Telecommunications Equipment	6,175	6,715	8,910	9,051	11,278
Radio Sets	657	611	702	712	837
Television Sets	1,085	1,195	1,515	1,428	1,740
Phonographs and Audio and Video Recorders	1,157	1,331	2,087	2,047	2,691
Electrical Machinery and Parts	6,588	8,064	9,180	10,281	12,499
Transport Equipment	25,634	28,642	31,415	33,863	39,156
Road Motor Vehicles	16,870	19,163	22,111	24,989	28,736
Passenger Cars	14,813	16,776	17,540	19,757	22,934
Automotive Parts (excl. engines, tires and electrical parts)	5,205	4,917	4,106	4,372	6,299
Motorcycles and Parts	994	1,256	1,373	1,118	792
Aircraft and Parts	1,078	1,885	2,585	2,481	2,051
Miscellaneous Manufactured Goods	21,006	23,711	26,179	28,061	31,706
Clothing	5,876	6,427	7,537	8,165	9,583
Footwear	2,859	2,808	3,019	3,438	4,010
Professional, Scientific and Controlling Instruments	1,159	1,418	1,655	1,692	1,911
Clocks and Watches	946	1,097	1,276	991	1,058
Printed Matter	529	613	622	664	739
Toys and Sporting Goods	1,664	1,914	2,167	2,786	2,506
Art Works and Antiques	1,487	2,672	2,056	2,024	2,017
Unclassified Commodities	4,905	7,183	7,296	7,708	7,742

*Imports are valued on a f.a.s. basis in 1979, 1980 and 1981 and on a Customs basis in 1982 and 1983. The difference between the two valuation bases is negligible.

Source: Department of Commerce

Table 38: U.S. Trade with Japan, 1979-1983

(in millions of dollars, f.a.s. value basis*, seasonally unadjusted)

		Exports**	Change Over Year-Earlier Period	Imports	Change Over Year-Earlier Period	Trade Balance
1979		$17,579	36.4%	$26,243	7.3%	$ -8,664
1980		20,790	18.3	30,714	17.0	-9,924
1981		21,823	5.0	37,612	22.5	-15,789
1982		20,966	-3.9	37,744	0.4	-16,778
1983		21,894	4.4	41,183	9.1	-19,289
1982	January	1,786	2.5	3,720	16.4	-1,934
	February	1,706	-2.3	2,708	15.7	-1,002
	March	1,862	-13.8	3,587	17.5	-1,725
	April	1,575	-10.3	2,790	-13.4	-1,215
	May	1,710	7.2	3,759	24.0	-2,049
	June	1,829	2.4	3,117	2.8	-1,288
	July	1,776	-6.5	2,888	-8.3	-1,112
	August	1,732	8.7	3,815	7.7	-2,083
	September	1,568	-6.6	2,904	-0.2	-1,336
	October	1,804	-3.0	3,274	-11.5	-1,470
	November	1,815	-6.4	2,695	-19.0	-880
	December	1,803	-12.7	2,486	-17.2	-683
1983	January	1,601	-10.4	2,953	-20.6	-1,352
	February	1,424	-16.5	2,894	6.9	-1,470
	March	1,781	-4.4	3,440	-4.1	-1,659
	April	1,753	11.3	3,080	10.4	-1,327
	May	1,547	-9.5	3,461	-7.9	-1,914
	June	1,936	5.9	3,284	5.4	-1,348
	July	1,921	8.2	3,557	23.2	-1,636
	August	1,800	3.9	3,634	-4.7	-1,834
	September	1,948	24.2	2,976	2.5	-1,028
	October	2,004	11.1	4,071	24.3	-2,067
	November	2,095	15.4	4,026	49.4	-1,931
	December	2,086	15.7	3,807	53.1	-1,721

*Customs value, not f.a.s. value, is used as the valuation basis for 1982 and 1983 imports. The difference between the two valuation bases is negligible.

**Domestic and foreign merchandise, including Department of Defense shipments.

Source: Department of Commerce

Table 39: U.S. Exports to Japan by Commodity, 1979-1983

(in millions of dollars, f.a.s. value basis)

	1979	1980	1981	1982	1983
Total Exports to Japan*	$17,368	$20,575	$21,515	$20,665	$21,520
Agricultural Commodities	5,255	6,111	6,562	5,547	6,241
Nonagricultural Commodities	12,113	14,464	14,953	15,118	15,279
Food and Live Animals	3,612	4,254	4,712	3,944	4,294
Meat and Meat Products	392	384	502	530	574
Fish and Fish Products	564	400	553	600	506
Grain and Cereal Products	2,000	2,758	2,876	2,107	2,493
Wheat	537	596	615	564	589
Corn	1,203	1,633	1,792	1,290	1,764
Sorghum	250	497	410	208	86
Vegetables and Fruits	336	356	445	401	419
Animal Feeds	167	212	152	140	159
Beverages and Tobacco	279	253	392	400	442
Unmanufactured Tobacco	229	197	302	310	339
Cigarettes	40	44	74	67	80
Inedible Crude Materials	4,995	5,486	4,407	4,054	4,185
Hides and Skins	321	266	281	228	240
Soybeans	1,032	1,106	1,139	971	1,210
Logs and Lumber	1,744	1,533	1,021	1,045	900
Paper Base Stocks	421	718	549	488	485
Raw Cotton	450	526	504	501	500
Steel Scrap	306	309	118	145	218
Nonferrous Ores and Scrap	443	758	503	367	309
Mineral Fuels	1,209	1,736	2,097	2,440	1,994
Bituminous Coal	915	1,311	1,472	1,525	1,002
Petroleum Products	170	199	291	621	639
Animal and Vegetable Oils and Fats	80	77	91	83	62
Inedible Tallow	47	50	40	34	24
Chemicals	1,652	1,964	2,349	2,530	2,607
Chemical Elements and Compounds	851	987	1,215	1,303	1,308
Organic Chemicals	516	590	686	665	674
Inorganic Chemicals	335	397	529	638	634
Pharmaceuticals	250	324	430	489	521
Fertilizers	45	76	65	96	110
Plastic Materials	226	226	290	308	345

(continued)

Table 39: U.S. Exports to Japan by Commodity, 1979-1983 (continued)

(in millions of dollars, f.a.s. value basis)

	1979	1980	1981	1982	1983
Manufactured Goods Classified Chiefly by Material	$ 935	$1,585	$1,394	$1,320	$1,360
Paper and Paper Products	153	271	260	263	294
Textiles (excl. clothing)	117	111	124	106	98
Nonmetallic Mineral Products	123	121	127	117	136
Iron and Steel	51	53	44	46	42
Nonferrous Metals and Alloys	178	605	443	447	413
Aluminum and Alloys	145	559	399	416	375
Metal Manufactures	117	155	151	174	191
Machinery and Transport Equipment	3,218	3,797	4,405	4,090	4,794
Machinery	2,114	2,511	2,902	3,015	3,251
Power Generating Machinery	191	288	342	331	517
Aircraft Engines and Parts	92	129	150	177	180
Agricultural Machinery and Parts and Tractors	52	47	38	28	24
Mining and Drilling Machinery and Parts	51	84	168	254	89
Metalworking Machinery	83	91	94	90	68
Heating and Cooling Equipment	84	79	88	78	80
Centrifuges and Filtering and Purifying Machinery and Parts	62	73	67	62	58
Office Machinery and Computers	483	652	759	838	905
Computers and Parts	276	373	402	408	461
Telecommunications Equipment	129	143	182	174	208
Electrical Machinery and Parts	551	550	601	618	738
Electric Power Apparatus and Switchgear	90	111	120	121	141
Transport Equipment	1,104	1,286	1,504	1,075	1,543
Road Motor Vehicles and Parts	232	191	173	148	145
Passenger Cars	117	60	47	44	31
Aircraft and Parts	856	1,086	1,310	906	1,345
Commercial Aircraft	592	678	815	421	835
Aircraft Parts	249	403	487	468	498
Miscellaneous Manufactured Goods	1,197	1,227	1,377	1,410	1,367
Clothing	79	78	85	65	44
Professional, Scientific and Medical Equipment and Measuring and Controlling Instruments	453	484	537	549	583
Photographic Supplies	155	188	206	202	221
Printed Material	39	39	47	52	55
Toys and Sporting Goods	139	109	118	162	114
Musical Instruments and Parts	70	72	92	85	82
Unclassified Commodities	104	89	111	96	121

*Domestic merchandise only, including Department of Defense shipments.

Source: Department of Commerce

Table 40: U.S. Imports from Japan by Commodity, 1979-1983

(in millions of dollars, f.a.s./Customs value basis*)

	1979	1980	1981	1982	1983
Total Imports from Japan	$26,243	$30,701	$37,612	$37,744	$41,183
Agricultural Commodities	89	100	120	129	169
Nonagricultural Commodities	26,154	30,602	37,492	37,615	41,014
Food and Live Animals	221	274	265	278	337
Fish and Fish Products	163	208	186	192	219
Beverages and Tobacco	8	10	15	16	24
Inedible Crude Materials	64	54	62	57	75
Mineral Fuels	89	52	23	21	11
Animal and Vegetable Oils and Fats	5	6	6	6	7
Chemicals	616	697	956	879	1,099
Chemical Elements and Compounds	329	373	498	464	547
Organic Chemicals	276	299	412	368	433
Inorganic Chemicals	53	74	87	95	114
Pharmaceuticals	61	67	78	68	81
Manufactured Goods Classified Chiefly by Material	5,102	5,664	6,952	6,830	5,222
Tires and Tubes	221	277	377	376	409
Plywood and Veneers	62	54	49	35	43
Paper and Paper Products	53	47	58	54	71
Textiles (excl. clothing)	370	370	513	528	582
Yarn	41	36	42	51	68
Cotton Fabrics	27	33	47	55	66
Other Fabrics	209	207	315	306	327
Glass, Glassware and Tableware	294	332	400	349	408
Steel Mill Products	2,660	2,843	3,801	3,586	1,931
Wire Rods and Bars	537	485	502	403	338
Plates and Sheets	1,195	994	901	763	1,013
Tubes, Pipes and Fittings	790	1,221	2,256	2,263	421
Nonferrous Metals and Alloys	253	481	318	315	393
Copper and Alloys	80	320	103	79	107
Aluminum and Alloys	82	21	47	178	223
Metal Manufactures	979	1,036	1,140	1,334	1,089

(continued)

Table 40: U.S. Imports from Japan by Commodity, 1979-1983 (continued)

(in millions of dollars, f.a.s./Customs value basis*)

	1979	1980	1981	1982	1983
Machinery and Transport Equipment	$17,498	$20,787	$25,522	$25,735	$30,142
Machinery	7,786	8,671	11,856	12,357	15,323
Power Generating Machinery (incl. engines)	538	554	688	714	834
Agricultural Machinery and Tractors	257	171	186	186	233
Textile Machinery	149	132	196	158	195
Metalworking Machinery	398	583	789	735	613
Office Machinery and Computers	970	1,175	1,656	2,102	3,247
Telecommunications Equipment	2,915	3,134	4,783	4,707	5,697
Radio Sets	261	235	271	255	246
Television Sets	312	268	446	431	423
Phonographs and Audio and Video Recorders	858	1,037	1,762	1,717	2,348
Transport Equipment	9,712	12,116	13,667	13,379	14,819
Road Motor Vehicles	7,066	9,147	11,494	11,388	12,845
Passenger Cars	6,664	8,359	9,324	9,169	10,294
Automotive Parts (excl. engines, tires and electrical parts)	1,504	1,532	487	565	865
Motorcycles and Parts	900	1,127	1,297	1,069	741
Aircraft and Parts	57	93	131	162	138
Miscellaneous Manufactured Goods	2,441	2,751	3,480	3,505	3,903
Clothing	187	203	278	256	340
Professional, Scientific and Controlling Instruments	283	325	414	419	510
Clocks and Watches	242	306	419	307	336
Printed Matter	57	66	79	84	99
Toys and Sporting Goods	187	270	324	464	306
Unclassified Commodities	201	408	331	417	365

*Imports are valued on a f.a.s. basis in 1979, 1980 and 1981 and on a Customs basis in 1982 and 1983. The difference between the two valuation bases is negligible.

Source: Department of Commerce

Table 41: U.S. Direct Investment Position Abroad, Year-End 1978-1982

(in millions of dollars)

	1978	1979	1980	1981	1982
Developed Countries	$121,230	$139,477	$158,214	$165,396	$163,076
Canada	37,071	40,243	44,978	45,129	44,509
United Kingdom	20,416	23,539	28,605	30,260	30,785
West Germany	12,731	13,521	15,418	15,840	15,912
Switzerland	7,394	9,699	11,280	12,509	13,272
Netherlands	4,685	6,910	8,138	8,813	8,795
Australia	6,441	7,165	7,662	8,757	8,731
France	6,806	8,024	9,348	9,132	7,799
Japan	4,972	6,208	6,243	6,755	6,872
Belgium-Luxembourg	4,555	6,390	6,911	6,903	5,827
Italy	3,595	4,381	5,399	5,275	4,699
Developing Countries	37,584	44,680	53,206	56,182	53,157
International/Unallocated	3,913	3,700	3,955	4,780	5,110
Total	162,727	187,858	215,375	226,359	221,343
of which:					
Petroleum	30,532	39,128	47,591	51,223	55,697
Manufacturing	69,669	79,023	89,290	92,386	90,685
Other	62,526	69,707	78,493	82,750	74,961

Source: Department of Commerce

Table 42: U.S. Direct Investment Position in Japan, Year-End 1978-1982

(in millions of dollars)

	1978	1979	1980	1981	1982
Total	$4,972	$6,208	$6,243	$6,755	$6,872
Mining	0	0	0	0	0
Petroleum	1,694	1,906	1,570	1,737	1,712
Manufacturing	2,309	2,775	2,971	3,236	3,456
Food Products	142	171	162	185	225
Chemicals	497	670	700	767	776
Metals	5	67	82	80	*
Nonelectric Machinery	1,272	1,245	1,141	1,185	1,264
Electric Machinery			202	228	239
Transport Equipment	*	251	260	300	*
Other	*	370	425	490	479
Trade	585	1,040	1,115	1,215	1,087
Banking	231	160	*	*	*
Finance, Insurance and Real Estate			186	221	251
Other	153	*	*	*	*

*Suppressed to avoid disclosure of data on individual companies.

Source: Department of Commerce

Table 43: Foreign Direct Investment Position in the United States, Year-End 1978-1982

(in millions of dollars)

	1978	1979	1980	1981	1982
United Kingdom	$ 7,638	$ 9,796	$12,242	$15,576	$23,334
Netherlands	10,078	12,672	16,909	23,105	21,446
Canada	6,180	7,154	10,074	9,883	9,823
Japan	2,749	3,493	4,225	6,993	8,742
West Germany	3,654	5,665	5,402	7,242	8,181
Switzerland	2,879	3,449	3,870	4,314	4,810
France	1,978	2,289	2,960	4,975	4,671
Belgium-Luxembourg	1,303	1,567	1,917	2,164	2,424
OPEC Countries	366	385	664	3,545	4,373
Total	42,471	54,462	68,351	90,421	101,844
of which:					
Petroleum	7,762	9,906	12,363	18,005	20,488
Manufacturing	17,202	20,876	25,159	29,976	32,186
Trade	9,161	11,562	14,296	17,628	20,630
Insurance	2,773	4,148	5,365	5,905	6,455
Other	5,573	7,971	11,168	18,908	22,084

Source: Department of Commerce

Table 44: Japan's Foreign Direct Investment Position in the United States, Year-End 1978-1982

(in millions of dollars)

	1978	1979	1980	1981	1982
Total	$2,749	$3,493	$4,225	$6,993	$8,742
Petroleum	n.a.	160	58	2	71
Manufacturing	474	696	837	1,158	1,485
Food Products	27	29	26	93	118
Chemicals	103	202	227	267	285
Metals	176	223	240	261	248
Machinery	69	125	176	319	361
Other	100	117	169	217	473
Trade	1,522	1,767	2,307	4,197	5,317
Finance	575	638	645	1,071	1,268
Insurance	n.a.	61	142	218	238
Real Estate	45	68	102	128	127
Other	7	102	134	219	237

Source: Department of Commerce